

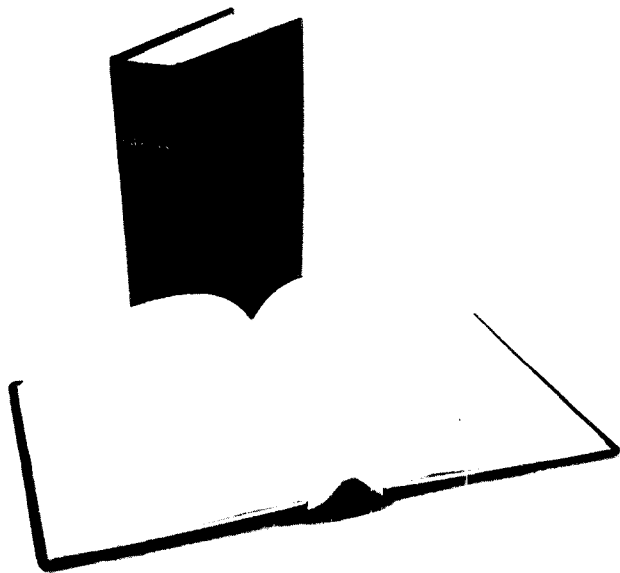
# the Freeman

Ideas on Liberty

MAY 1979



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Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, *President*

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*Managing Editor:* Paul L. Poirot

*Production Editor:* Beth A. Hoffman

*Contributing Editors:* Robert G. Anderson  
Bettina Bien Greaves  
Edmund A. Opitz (Book Reviews)  
Brian Summers

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# GOLD VERSUS FRACTIONAL RESERVES

THE present worldwide inflation has done, and will continue to do, immense harm. But it may eventually lead to one great achievement. It may make it possible to restore (or perhaps it would be more accurate to say to *create*) a full 100 percent gold standard.

That could come about in a simple manner. Our government has made it once more legal to hold gold, to trade in gold, and to make contracts in terms of gold. This makes it possible for private individuals to buy and sell in terms of gold, and therefore to restore gold as a medium of exchange. If our present inflation, as

seems likely, continues and accelerates, and if the future purchasing power of the paper dollar becomes less and less predictable, it also seems probable that gold will be more and more widely used as a medium of exchange. If this happens, there will then arise a dual system of prices—prices expressed in paper dollars, and prices expressed in a weight of gold. And the latter may finally supplant the former. This will be all the more likely if private individuals or banks are legally allowed to mint gold coins and to issue gold certificates.

But even of the small number of monetary economists who favor a return to a gold standard, probably less than a handful accept the idea of such a 100 percent gold standard. They want a return, at best, to the

Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times*, *Newsweek*, *The Freeman*, *Barron's*, *Human Events* and many others. The most recent of his numerous books is *The Inflation Crisis, and How to Resolve It*.

so-called classical gold standard—that is, the gold standard as it functioned from about the middle of the nineteenth century to 1914. This did work, one must admit, incomparably better than the present chaos of depreciating paper monies. But it had a grave weakness: it rested on only a fractional gold reserve. And this weakness eventually proved its undoing.

### **Not Enough Gold?**

The advocates of the fractional gold standard, however, saw—and still see—this weakness as a strength. They contend that a pure gold standard was and is impossible; that there is just not enough gold in the world to provide such a currency. Moreover, a pure gold standard, they argue, would be unworkably rigid. On the other hand, a fractional reserve system, they say, is flexible; it can be adjusted to “the needs of business”; it provides an “elastic” currency.

We will come back to these alleged virtues later, and examine them in detail; but first I should like to call attention to the central weakness of a fractional reserve system: it embodies a long-term tendency to inflation.

Let us begin with a hypothetical illustration. Suppose we have a world in which the leading countries have been maintaining a 100 percent gold standard, that they begin

to find this very confining, and that they decide to adopt a fractional gold standard requiring only a 50 percent gold reserve against bank deposits and bank notes.

The banks are now suddenly free to extend more credit. They can, in fact, extend twice as much credit as before. Previously, assuming they were lent up, they had to wait until one loan was paid off before they could extend another loan of similar size. Now they can keep extending more loans until the total is twice as great. The new credit plus competition causes them to lower their interest rates. The lower interest rates tempt more firms to borrow, because the lower costs of borrowing make more projects seem profitable than seemed profitable before. Credit increases, projects increase, and there is a “boom.”

So reducing the gold reserve requirement from 100 percent to 50 percent, it appears, has been a great success. But has it? For other consequences have followed besides those just outlined. Production has been stimulated to some extent by lowering the reserve requirement; but production cannot be increased nearly as fast as credit can be. So as a result of increasing the credit supply most prices have practically doubled. Twice the credit does not “do twice the work” as before, because each monetary unit now does, so to speak, only half the work it did

before. There has been no magic. The supposed gain from doubling the nominal amount of money has been an illusion.

And this illusion has been bought at a price. Lowering the required gold reserve to 50 percent has enabled the banks to double the volume of credit. But as they begin to approach even the new credit limit, available new credit becomes scarce. Some banks have to wait for old loans to be paid off before they can grant new ones. Interest rates rise. New projects have to be abandoned, as well as some incompleting projects that have already been launched. A recession sets in, or even a financial panic.

And then, of course, the proposal is made that the simple way out is to reduce the gold-reserve requirement once again, so as to permit a still further creation of credit.

### **The Federal Reserve Act**

Historically, this is exactly what has been happening. Space does not permit a detailed review of what has happened in one nation after another, starting, say, after the adoption in England of Sir Robert Peel's Bank Act of 1844. But we can point to a few sample changes in our own country, beginning with the Federal Reserve Act of 1913.

That act set up twelve Federal Reserve Banks, and made them the repositories for the cash reserves of

the national banks. The first thing that was done was to reduce the reserve requirements of these commercial banks. Under the national banking system the banks had been classified according to the size of the city in which they were located. They were Central Reserve City Banks, Reserve City Banks, and Country Banks. These were required to keep reserves, respectively, of 25 percent of total net deposits (all in the bank's own vaults), 25 percent of total net deposits (at least half in the bank's own vaults), and 15 percent of total net deposits (two-fifths in the bank's own vaults).

The Federal Reserve Act classified deposits into two categories, demand and time, with separate reserve requirements for each. For demand deposits the act reduced the reserve requirements to 18 percent for Central Reserve City Banks, 15 per cent for Reserve City Banks, and 12 percent for Country Banks. In each case at least one-third of the reserve was to be kept in the bank's own vaults. For time deposits the reserve was only 5 percent for all classes of banks.

In 1917, as an aid in floating government war loans, the reserve requirements were further relaxed, to 13, 10, and 7 percent respectively, with only a 3 percent reserve requirement for time deposits. Though the amendment also required that

all reserve cash should thereafter be held on deposit with the Federal Reserve Banks, the amount of till or vault cash necessary to meet daily withdrawals was found to be small.

In addition to this lowering of the reserve requirements of the member banks, the Federal Reserve System provided for the building of a second inverted credit pyramid on top of the one that the member banks could build. For the Federal Reserve Banks themselves were authorized to issue note and deposit liabilities against their gold reserves, which were required to total only 35 percent against deposits.

As a result of such changes, if the average reserves held by the commercial banks against their deposits were taken as 10 percent, and the gold reserves held by the System against these reserves at 35 percent, the actual gold held against the commercial deposits of the System could be reduced to as low as 3.5 percent.

What actually did happen is that between 1914 and 1931, total net deposits of member banks increased from \$7.5 billion to \$32 billion, or more than 300 percent in less than two decades.<sup>1</sup>

These figures continued to grow. Gold reserve requirements were finally removed altogether. In Au-

gust, 1971, when the United States officially went off the gold standard, the money stock, as measured by combined demand and time deposits plus currency outside of banks, was \$454.5 billion. The U.S. gold reserves were then valued at \$10.2 billion. This meant that the money stock of the country had been multiplied more than sixty times over that of 1914, and the gold reserve against this money stock had fallen to only 2.24 percent. Put another way, there was then \$44 of bank credit issued against every \$1 of gold reserves.

### **Exhausting the Gold Reserve**

The situation was actually more ominous than these figures suggest. For under the gold-exchange system of the International Monetary Fund, it was not merely the American dollar, but the total currencies of practically all the nations in the Fund, that were supposed to be ultimately convertible into the U.S. monetary gold stock. The miracle is not that this gold exchange system collapsed altogether in August of 1971, but that it did not do so much sooner.

In short, the fractional gold standard tends almost inevitably to become more and more attenuated, and while it does so it permits and encourages progressive inflation.

When the gold standard is abandoned completely and officially, inflation usually accelerates. This has

<sup>1</sup>See *Money and Man*, by Elgin Groseclose (University of Oklahoma Press), pp. 215-219.

been illustrated in the more than seven years since August, 1971. At the end of 1978, the money stock, counting both demand and time deposits, had risen to \$871 billion—nearly double the figure at which it stood in August, 1971.

But what happens as long as the fractional gold standard is being nominally maintained is that the milder rate of inflation is less noticed, and even many monetary economists are inclined to view it with complacency. This is partly because they have a reassuring theory of what is happening. The amount of currency and credit, they say, is responding to the "needs of business." The loans on which the deposits or Federal Reserve Notes are based represent "real goods." A manufacturer of widgets, for example, borrows a six-month loan from his bank to meet his payroll and other production costs, then when he sells his goods he pays off the loan with the proceeds, and the credit is cancelled. It is "self-liquidating." The money is therefore "sound"; it cannot be over-issued, because it increases and contracts with the volume of business activity.

What this theory overlooks is that while the individual loan may be self-liquidating, this is not what happens to the total volume of credit outstanding. Manufacturer Smith's loan has been repaid. But under the fractional reserve system, the bank,

as a result of this repayment, now has "excess reserves," which it is entitled to re-lend. Of course if the bank is fully lent up, even under a fractional reserve system, it cannot extend credit further. But when a substantial number of banks are seen to be nearing this point, pressure comes from all sides—from the banks and their would-be borrowers, and from the government monetary authorities and the politicians who have appointed them—to lower the reserve requirements further. If nothing has gone wrong so far with the existing fractional reserve, indeed, there seems to be no harm in reducing the fraction further. It will permit a further expansion of credit, reduce interest rates, and prevent a threatened business recession.

In sum, to repeat, a fractional-reserve gold system, once accepted, must periodically bring about business and political pressure for a further reduction of the fractional reserve required.

### **The Harmful Consequences**

We have now to examine the harm that the system does whether or not the pressure to reduce the reserve requirements is continuously successful.

Let us begin with a situation in, say, Ruritania, which has a fractional-reserve gold standard and a central bank, but in which business activity has not been fully

satisfactory. The central bank then either lowers the discount rate, or creates more member-bank reserves by buying government securities, or it does both. As a result, business is encouraged to increase its borrowing and to launch on new enterprises, and the banks are now able to extend the new credit demanded.

As a consequence of the increased supply of money and credit, prices in Ruritania rise, and so do employment and money incomes. As a further result, Ruritarians buy more goods from abroad. As another result, Ruritania becomes a better place to sell to, and a poorer place to buy from. It therefore develops an adverse balance of trade or payments. If neighboring countries are also on a gold basis, and inflating less than Ruritania, the exchange rate for the rurita declines, and Ruritania is obliged to export more gold. This reduces its reserves and forces it to contract its currency and credit. More immediately, it obliges Ruritania to increase its interest rates to attract funds instead of losing them. But this rise in interest rates makes many projects unprofitable that previously looked profitable, shrinks the volume of credit, lowers demand and prices, and brings on a recession or a financial crisis.

If neighboring countries are also inflating, or expanding the volume of their money and credit at as fast a

rate, a crisis in Ruritania may be postponed; but the crisis and the necessary readjustment are all the more violent when they finally occur.

### **The Cycle of Boom and Bust**

The fractional-reserve gold standard, in short—especially when it exists, as it usually does, with a central bank, a government and a public opinion eager to keep expanding credit to start a “full employment” boom or to keep it going—brings about what is known as the business cycle, that periodic oscillation of boom and bust that socialists and communists attribute, not to the monetary and credit system and central banking, but to some inherent tendency in the capitalist system itself.

I need describe here only in a general way the process by which credit expansion brings about the boom and the inevitable subsequent bust. The credit expansion does not raise all prices simultaneously and uniformly. Tempted by the deceptively low interest rates it initially brings about, the producers of capital goods borrow the money for new long-term projects. This leads to distortions in the economy. It leads to overexpansion in the production of capital goods, and to other malinvestments that are only recognized as such after the boom has been going on for a considerable time.

When this malinvestment does become evident, the boom collapses. The whole economy and structure of production must undergo a painful readjustment accompanied by greatly increased unemployment.

This is the Austrian Theory of the trade cycle, which I need not expound here in all its complex detail because that has already been done fully and brilliantly by such writers as Mises, Hayek, Haberler, and Rothbard.<sup>2</sup>

### **The World Adrift in Turbulent Seas of Paper Money**

My chief concern in this article has been to show that in addition to being the principal institution responsible for bringing about the cycle of boom-and-bust that has plagued the civilized world since the early nineteenth century, the fractional-reserve standard, once its principle of "economizing the use of gold" has been fully accepted, itself encourages an inflation that has no logical stopping place until gold has been "phased out" altogether, and the world is adrift in the turbulent seas of paper money.

In emphasizing this weakness of a

fractional-reserve standard, I do not intend to imply that I have solved the baffling problem of creating an ideal money—assuming that that problem is even soluble. An opportunity now exists—for the first time in a couple of centuries—to introduce a 100 percent gold reserve standard. But if sufficient new gold supplies were not regularly available, such a standard could conceivably result over time in a troublesome fall in commodity prices. Moreover, unless there were rigid prohibitions against it, a private no less than a government money would soon tend to become a fractional-reserve standard. And if we allowed this, would we not soon be on the road once more to a constantly diminishing fraction, and at least a constant mild inflation?

I confess I do not have confident answers to these questions. But that does not invalidate my criticisms of a fractional-reserve standard. I should like to point out, incidentally, that expanding the money supply through a fractional-reserve standard—mainly for the purpose of holding down the exchange-value of the individual currency unit and thereby preventing a fall in prices—could also be accomplished under a full gold standard by constantly or periodically reducing the weight of gold into which the dollar (or other unit) was convertible. Such a proposal was once actually made

<sup>2</sup>In addition to larger works of these four writers that include discussions of the subject, the interested reader may consult the pamphlet, *The Austrian Theory of the Trade Cycle*, which contains an essay by each of them. (Center for Libertarian Studies, 200 Park Avenue South, Suite 911, New York, N.Y. 10003, \$3.00).

by the economist Irving Fisher. I am unaware of any economist who accepts such a proposal today. But it is no different in principle from steadily expanding the money supply—under either a paper or a fractional-reserve gold standard—for the purpose of holding down the purchasing power of the monetary unit. Is this a power we would want to trust to the politicians?

As a result of what has already happened, I regret that I cannot join some of my fellow champions of the full gold standard in urging their respective national governments to return immediately to such a standard. I believe such a step at the moment to be both politically and economically impossible. Confidence in the monetary good faith of governments has been destroyed. If any one government were to attempt to return to gold convertibility, at even today's free market price for gold, it

would probably be bailed out of its gold within a few weeks.

That is because holders of the currency would doubt not only that government's determination but its ability to maintain that conversion rate. People have seen their governments casually abandon the gold standard, and they are more aware of how slim and insecure the new gold-backing might be against the enormous volume of credit and paper money now outstanding. Gold convertibility of an individual currency could probably now be restored only after a few years of balanced budgets and refrainment from further currency expansion.

Meanwhile, if governments would permit private individuals or banks to mint gold coins and to issue gold certificates, a dual currency system could come into existence that could eventually permit a smooth transition back to a sound gold currency. ☸

### No Shortage of Gold

IN a free market economy it is utterly irrelevant what the total stock of money should be. Any given quantity renders the full services and yields the maximum utility of a medium of exchange. No additional utility can be derived from additions to the money quantity. When the stock is relatively large, the purchasing power of the individual units of money will be relatively small. Conversely, when the stock is small, the purchasing power of the individual units will be relatively large. No wealth can be created and no economic growth can be achieved by changing the quantity of the medium of exchange.

IDEAS ON



LIBERTY

HANS F. SENNHOLZ, *Gold Is Money*

# OUR HERITAGE



Our heritage is not a static stock of sticks and stones. Neither does it consist of ancient artifacts embalmed and preserved like Egyptian ancestors in pyramided tombs.

It is a real and integral part of living. It impels us to look back on what has been, but it can never be preoccupied with history alone.

Like the Janus-faced deity of the Romans, it demands an ever-present consciousness of our future as well as our past.

Our heritage is the linkage of yesterday with tomorrow. It bridges the generations of mankind and defies the truncations of time.

It is a vitality springing out of the present, but rooted in the past that

produces, in our time and upon our land, structures and monuments and places for creation and recreation, that can be used and cherished by men and women with educated minds and understanding hearts.

If these impulses lift the spirit of man in any age, the works they succeed in creating will surely become a part of the enriched inheritance of succeeding generations.

The principal value of preserving the past is that it assures the presence of models of perfection that may inspire great actions, high purposes and the production of good and beautiful works—today and in all of our tomorrows.

How did the treasure-houses that are the heritage of mankind come into being?

They were the products of the in-

---

This article is an excerpt from an address delivered to a Conference of "Heritage Canada" at Saskatoon by Morris Shumiatcher, a Saskatchewan lawyer and author.

spiration of individual men and women who built structures to be inhabited and used for whatever purposes suited the age in which they took shape—some sacred, some profane.

### National Heritage

A humble log cabin erected on a riverbank of the Prairies in 1810, to store pemmican and furs, which later served as a schoolhouse, and later still as a granary, may be a significant part of our national heritage for many years to come.

A great cathedral that was a sacred place of worship for the establishment of our largest city a hundred years ago, and now serves as the outer shell for a dozen bright boutiques, is also a part of that heritage.

Usefulness and use are the hallmarks of the buildings and places that measure our progression through the pages of history, perhaps more felicitously than a Taj Mahal, with its perfect symmetry and matchless marble. After all, the Taj is a memorial not to life—but to death.

Few individuals today are able to conceive, create or build (let alone finance), like Emperor Shah Jahan, overpowering structures of monumental dimensions. The man who would now build inspirationally for the future is discouraged in many ways.

First, the skills of the great craftsmen who created our architectural heritage having all but disappeared from the land.

The ancient cathedrals and temples, palaces, and monuments reflect the skills and genius of the men who conceived and designed and fashioned them: the architects and stonemasons and carpenters and ironmongers and glaziers.

Their expertise is mankind's richest heritage because it makes possible a rebirth of the wonders of other ages.

Most are lost to us, save in the gardens of a few museums and in the reconstructed shops of antiquities where a handful of dedicated, costumed men and women act out the roles of spinners and weavers and cobblers and smiths and pretend to keep alive a thimbleful of lost and long-forgotten arts.

Secondly, it has grown too costly to insist on excellence and beauty.

Draining the innovative energies of the architects and engineers and builders and designers and workmen of all descriptions are the omnipresent parasites that fasten themselves like leeches upon the vessels of the body politic.

If a businessman were to plan to injure a competitor by impeding construction, he could do nothing more effective than to design the building codes that inhibit us in every part of this country.

If a foreign enemy wished to cripple our development, he could achieve no greater victory than by perpetuating the multi-tiered bureaucracies that require committees and commissions and boards and regulatory agencies and authorities *ad nauseam*, to hold hearings and inquiries and publish findings, reports and recommendations and, at will, withhold licenses, permits, exemptions and releases so that in the end, our principal and ultimate, and probably our most durable national manufactured product will be paper: a glorious end for our magnificent forest heritage!

Thirdly, the heavy burden of taxation effectively discourages those who would erect structures of an unusual character from investing their time and treasure in such luxuries because they are unlikely to produce enough to provide an adequate return on investment.

The result is evident in our cities: the monolithic office buildings containing hundreds of thousands, indeed millions of square feet, are encased in pre-fabricated grey-concrete slabs embellished by a street number outside, and wall-to-wall carpeting inside, all aping the architectural sterilities of Moscow: Stalin Style.

These structures, praised for their utility, are the outer shells of the heritage of our generation.

It is said that they are functional;

that they serve a useful purpose; that they will remain standing a long time.

### Capable of More

If they do, they will generate the same kind of bemused interest in the inquisitive minds of our heirs, as we discover in the coral deposits, which are all that is left of the lives of the anonymous billions of microcosmic creatures that mindlessly produced the vast ocean barrier reefs of the Pacific.

As homo sapiens, we are capable of producing a richer, more diverse heritage than that!

But this we shall do only if the individual and his genius are held to be of higher worth than the physical collectivity of mankind—the organization, the party, the cult, the state.

To answer the question, "How best may we conserve the structures and artifacts that are our heritage?", I would ask another question: "How best may we create the stuff and substance from which tomorrow's heritage will emerge?"

If we value our heritage of the past, we must cherish the individuals who are today capable of producing the heritage of the future.

We can affirm the worth of such persons only in an environment in which the individual is highly motivated and moved to develop his strengths to the utmost of his capacity in order that he may become an

educated and cultured citizen.

When he has learned to express himself according to the highest standards that excellence can attain, he must be free to work and to produce in a place where merit is not penalized nor success filched or taxed away from those who have achieved it.

### Clear Priorities

It demands a recognition that beauty is more necessary to life than safety, and invention is more vital to society than security.

It requires an acceptance of the fact that a group is not an organism apart from its constituent individuals. A group has no brain or stomach of its own; it must think and feel with the brains and nerves of its members.

When a nation flourishes, it is through the success of its intellectual, artistic and political leaders.

When it declines, it is through no mystic malaise in the state, but through a failure of its citizens to assume the role of leadership in our homes and businesses, our schools and hospitals, our laboratories, fields, factories, workshops, theatres and courts.

When I speak of the need for an environment that is compatible to the creation of a great heritage, I like to believe that each age is capable of generating physical forms that will strike not only a contempo-

rary chord that is responsive to the spirit of the times, but one that will be heard and understood far into the future.

All of this can be achieved in a society that is vigorous and robust: capable of meeting the challenges of competition in the marketplace; resourceful in adapting to changes in the sources and cost of energy; determined to resist luxury, corruption, the erosion of families and the blandishment of immorality; and determined to overwhelm the sloth of slobs with work, and to overcome the skepticism of the age with faith.

Our heritage can never flourish except through the individual who possesses these elements, and dispenses them like the gifts they are, with open hands, in his lifetime.

While the public may be interested in heritage property, it is the individual who will always be responsible for producing it.

Public policies and the law, therefore, must concern themselves, principally, with the rights and the needs of the individual in relation to property which may be, or may become a part of the inheritance of future generations.

Then, will the individual naturally come to assume his obligation to produce and preserve and perpetuate it, saying, with the Psalmist, that great riches: "are fallen unto me in pleasant places; Yea, I have a goodly heritage." ㊦



# World in the Grip of an Idea

Clarence B. Carson

## 29. The Cold War: Co-existence, Detente, and Convergence

WHEN the Cold War was at its height, it was sometimes suggested that there was a parallel between it and the religious wars of the sixteenth and seventeenth centuries. The idea behind the making of this analogy was supposedly to put the Cold War in perspective. Those who pushed the analogy were saying, in effect, "Look, don't get so excited about this conflict. Our forebears went through just such a conflict. There was a time when men were so

heated up about religious differences that they fought grisly wars with one another about them. And what do we, with the advantage of historical perspective, think of the merit of these differences? Do we think them worth fighting about? Hardly!"

There are some interesting parallels between the earlier religious wars and those of this century, more interesting even than those who have advanced the analogy have pointed out. The earlier conflicts were between Christians, people of the same basic faith. The ideological conflicts of this century are between socialists, mainly, people of the

---

In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

same faith. In both conflicts, considerable attention has been paid to doctrinal differences, and differences in practice have occasioned acrimony. Moreover, socialists have been as inclined toward sectarian squabbles over dogma as Christians ever were.

There is yet another parallel. Both the earlier religious wars and the twentieth century conflicts were or are contests over political power; but since this parallel is crucial, the discussion of it should wait for a bit.

Reasoning by analogy has its pitfalls, however. Where complex phenomena are involved, as in these conflicts, it is important to attend both to similarities and to differences. It is even more important to distinguish between superficial similarities which may be accidental and critical differences which may be essential. Nor is any valid historical perspective to be gained by ignoring critical differences.

### **Living with Differences**

It is true that Christians are generally at peace with one another in the world today. It is also true that sectarian differences which once were battle cries hardly excite a murmur. A certain amount of convergence has even taken place amongst some Christians, but it is also the case that where some union takes place, those who oppose the union often form their own denomi-

nations. The important point to get at, however, is to understand why Christians are generally at peace with one another. It is not, as secularists may suppose, that differences in doctrine no longer matter, or that there has been a decline in religion and religious fervor. It may be the case that dogmas are not generally so sharply defined or keenly felt as they were, say, in the course of the Protestant Reformation. But that is surely only a matter of degree and is by no means universal. As to a decline in religion, there has been such a decline among intellectuals in the last century, accompanied by an impact on the intellectual climate. This does not of itself signify a decline in religious belief but rather an intellectual narrowing of its import.

In any case, religious enthusiasm has waxed and waned several times in the period since religious differences among Christians were the occasion of any widespread conflict. This suggests to me that the degree of religious belief is not the key to an explanation of martial conflict over religion.

### **Conflicts Over Power**

Religious differences only become an occasion for warfare when religion is linked to political power. To put it another way, conflict arises over the attempt of those who hold political power to force their beliefs

on others who differ with them. Or, it can arise when there is a contest between those who have differing religious persuasions over who shall exercise the power in matters of religion.

The Protestant Reformation, and the Catholic Counter-Reformation, spawned wars because state and church were intertwined and because only one religion could be, or was, established. The power contest contributed much to sharply defined dogmatic positions and thus to the proliferation of denominations. (The more sharply drawn doctrinal positions are the less the likelihood of general agreement. But doctrines must be sharply defined if adherence to them is to be enforced by law.) The way to religious peace is to deny to any religion the power to force its doctrines on others or to establish its religion over them. This idea is found in the doctrine of the separation of church and state.

The matter runs deeper than this, however. There is a critical and essential difference between Christianity and modern socialism. At bottom, Christianity is not a power theory. As was earlier affirmed, socialism—whether revolutionary or evolutionary—is a power theory. But let us consider the case of Christianity first. It has already been pointed out that when Jesus went into the wilderness and was tempted that he rejected the vision of an

earthly kingdom or empire. That is, he rejected the use of force to attain his ends. He did so again, in another way, just before his trial and crucifixion. When Judas betrayed Jesus and the crowd laid hands on him, this event occurred:

And behold, one of them which were with Jesus stretched out his hand, and drew his sword, and struck a servant of the high priest's, and smote off his ear.

Then said Jesus unto him, Put up again thy sword into his place: for all they that take the sword shall perish by the sword. Matthew 26:51-52

It should be made clear, however, that these remarks were made in connection with the attainment of his ends. Jesus goes on to say that he could have legions of angels to defend him, if he would but ask. "But how then shall the scriptures be fulfilled, that thus it must be." (Matthew 26:54)

### No Use of Force

Christianity is not a power theory. Jesus rejected the use of force to achieve his purposes. The methods he employed were concern, love, healing, sacrifice, attraction, and persuasion. Those who would follow him, he bade to take up, *not* their swords, but the *cross* (i. e., the way of sacrifice). What Jesus seeks cannot be attained by force. Men cannot be made to believe. They cannot be forced to have a change in which

they comprehend the superior reality of spirit. The sword is an instrument of death, not of life, and he said that he came to bring life.

None of this is said to deny the obvious, namely, that many of those who have professed to be his followers have taken up the sword with the avowed purpose of defending or advancing Christianity. They have often enough intertwined religion with government. They have established churches by law. They have used the force of government to attempt to compel many things that were said to be in keeping with Christianity.

But they have not done so with the authority of Jesus; they have done so because they were impatient, because they were weak, because they were willful, because they substituted their wills for the will of Him they claimed to follow. They have even beset one another in violent and destructive wars. The carnage of the religious wars, and especially of the Thirty Years' War, was great. They took up the sword, and many perished by it. That prophecy was fulfilled, not for the first time and, sadly enough, not for the last, for it has lately come to pass once again in Ireland.

Christianity does not require the use of force. On the contrary, Christianity cannot be advanced by force. We have it on good authority that if God willed to use force He could call

forth such force as none could resist Him. But He does it not, for it is foreign to His nature and to His purpose. He wills peace, harmony, love, and that men should be at one with Him. These ends *cannot* be attained by force. To put it philosophically, in essence Christianity is not a power theory. When this guise has been forced upon it, it has been accidental and attributable to the weakness of men.

### **Socialism a Power Theory**

Socialism *is* a power theory. In essence, it is nothing but a power theory. Its affinity for the state is as near absolute as anything can be in this world. The further it goes toward its goal the more absolute its reliance on the state. None of this is accidental. It follows inexorably from the professed goal and from the complex of hatreds which animate it. The moment socialists abandon the state as the instrument for the achievement of their purposes they cease to be socialists, and socialism is no more.

Socialist thinkers did not, we may believe, consciously set out to contrive a scheme to bring about such a state of affairs. Many of them did not even embrace the state willingly, and most have professed reluctance. For Marx, the state was to be a temporary expedient, something to be used temporarily until its purpose had been achieved and it

could wither away. Gradualists have labored mightily to hide the mailed fist of the state behind the velvet glove of democracy.

What socialists contrived, whether they sought to do so or not, was a religion, or substitute for religion. It was a religion of man, and it was a man-made religion. The appeal of the idea that has the world in its grip is fundamentally religious. It has within it elements derived from traditional religions, but in it they become earth-bound and temporally oriented. The promise of the idea is that all things shall be made right here on earth and that man shall be finally liberated. The tacit promise is of an end of all restraint, and hence of an end to government and the use of force upon people. Man's inhumanity to man, a favorite phrase of those enlivened by the idea, will cease.

That the application of this idea with the avowed purpose of fulfilling the promises leads to statism, to terror, to violence, or to the ubiquitous use of the force of the state has been the burden of this work to show. But why should it do so? Indeed, why must it do so? Because of the premises which underlie socialism. Society is rent and sundered by a fundamental disharmony. The disharmony results from man's pursuit of his own self-interest, socialists claim. This, they say, turns man against man, defeats

the common good, results in pervasive injustices, and is the occasion for the use of force. The received social institutions support and reinforce the pursuit of self-interest. The disharmony is thereby institutionalized.

In theory, a religion of humanity could change all this. There are, here and there, devotees of such a faith. And socialists in general subscribe to its tenets. But the idea that has the world in its grip is not the religion of humanity. Its religion is statism. The reasons for this may not be apparent, but they can be surmised. There are two main ones, I think.

### **The Trouble with Abstractions**

The first of these is the inadequacy of the religion of humanity as a religion. It is a pallid thing. It is the worship of an abstraction which can never be personified. That is, man in the abstract, or humanity in the abstract, can be an object of veneration only so long as it does not entail actual men. Actual men have faults, something which most of us discover sooner or later, and are therefore not fit subjects for worship. A religion with wide appeal must have both personification and some sort of transcendence, or, at least, unquestioned purity. Abstraction is not transcendence, and actual men lack purity.

The other need of socialism as a

religion was a means or instrument for altering social institutions and transforming man. By their focus on man and this world, they denied a transcendent being, thereby requiring that their instrument be immanent. The dimensions of the problem made the choice of the state as the instrument inevitable. Only something with power over the whole could conceivably achieve the alterations and transformations involved.

*State* is the crucial term here. Socialists are not much given to making the distinction, and they are quite unlikely to proclaim themselves as state worshipers, but there is a crucial distinction between state and government. The worship of government is attended by the same difficulty as the worship of humanity. The difficulty is that actual governments have flaws, or rather the men who man them do.

The state is an abstraction; it is pure; it can even be an ideal. Power vested in the state cannot be misplaced, for it is the natural depository of all power over a given territory. Sovereignty, absolute sovereignty, is its prerogative, its reason for being. The state, in socialist underlying conception, is the rightful instrument of "the people," and so far as it acts for "the people," whatever power is exercised is legitimate. (Communists sometimes say proletariat rather than

people, but for them the proletariat is "the people.")

A constant struggle goes on to bring the government up to the level of the state, i. e., to make it a perfect instrument of "the people." What prevents it from being so is the persistence of "the class enemy," as communists put it, or of conservatives, reactionaries, business interests, or "the vested interests," in gradualist countries. "Fascism," which is the socialist conceptual personification of all the evil forces, is ever lurking around the corner ready to seize and misuse the power of the state.

### **The Disappearing State**

When the class enemy has finally been eradicated, when the last "fascist" has been rounded up, when the "vested interests" are at last divested of their power and influence, then government can be raised to the level of the state. "The people" will be identical with government, and government and state will merge. When this state of affairs comes about the use of force would be a redundancy. There could be no occasion for the use of force, for the will of the governors could be no different from the will of "the people." Communists have usually declared that this state of affairs will shortly come about. Gradualists foresee a much more extended struggle, with no culmination now in

sight. In any case, it is a struggle for power, for the monopolization of all power by "the people."

This is the mystic vision of socialism. So far as it is a religion, it is a religion of state worship. And that turns out to be a worship of power. The whole world is caught in the vise-like grip of an idea which propels it into the struggle toward power. The idea promises beatitude; it leads to destruction, to tyranny, to murder, to rapine, to suicide. The idea requires the sublimation of the individual to the state. This requirement is no less than the death of the ego or the end of the individual self.

It is possible to commit suicide, of course, without going through the whole vast process of lengthy evolution, massive revolution, the creation of a vast state mechanism, and so on. The Jones cult showed the way in the horrifying mass suicide-murder at Jonestown, Guyana. Self-immolation, the tacit goal of socialism, can be achieved directly by individuals, cults, and small groups. But that is a "cop out," so to speak, for it must be done on a world-wide scale.

What has all this to do with co-existence, with détente, and with convergence? It has everything to do with them. Can East and West co-exist? Can peace be attained by a policy of détente? Will communism and gradualist socialism eventually

converge? There is no way to answer these questions definitively, of course, for they entail events and developments that have not yet taken place, if they ever will.

### A Clearer Picture

There is a way to understand, however, what is involved in peaceful co-existence, détente, and convergence. It is through understanding the idea that impels the developments. Trying to make heads or tails of them with historical data in the absence of the ideological framework is akin to trying to put the pieces of a puzzle together without a picture of the completed puzzle before you. Explanations shift with changing leaders and changing policies, and no clear pattern emerges. The Chinese and Russians squabble over the meaning of co-existence. Soviet leaders hint at the possibility of convergence. Is détente anything more than the one step backward of the old Stalinist formula of two steps forward and one step back?

All these things begin to come into focus when we perceive that socialism is a power theory. Communism is a theory of coming to power, extending, and holding it by way of revolution. Evolutionary socialism is a theory of coming to power and extending it gradually by means that only subtly alter the received framework. Co-existence,

détente, and the possibility of convergence are *tactics* in the struggle for power. Peaceful co-existence and détente are communist tactics for moderating the conflict and allowing time and room for further communist expansion to take place. Convergence is not an avowed policy of the communists, and it cannot be so long as and to the extent that they are wedded to the idea of the necessity of revolution. Convergence is the dream, however, of many Western intellectuals. Every accord between East and West arouses hope that convergence is coming. It may well be a communist tactic to keep that hope alive.

Socialism is not just a power theory; it is a power theory animated by a mystic religion. It has a world vision. That vision is of the whole world under a single power, of every organization and every individual subordinated to that power. Only then, it is felt, can the vision of socialism become an actuality. So long as there is one independent power in the world, the peace, i.e., socialism, is threatened. I understand this to mean that co-existence can never be more than a temporary policy. In like manner, détente can never be more than a temporary policy. Thus far, history bears this out. Co-existence and détente are largely illusions of Western intellectuals and the governments under their sway.

## The Prospect of Change

Can communism not change? It depends upon what is meant. If it is a question of tactics, there is no doubt that communism can and does change. Communist tactics differ considerably from one country to another. Chinese and Cuban communism belong to the same genus, but they are quite different national species. Moreover, the tactics change greatly from time to time and under different leaders in the same country. Many of Stalin's tactics differed greatly from those of Lenin, and Khrushchev disavowed many of Stalin's tactics. Stalin fostered militant anti-fascist tactics in the Comintern for most of the 1930s, then entered into a pact with the Nazis. Communists have sometimes formed political parties, or semblances of them, and had candidates run for office in lands where they were not in power. At other times, they have refused to run for office on the grounds that such elections were a bourgeois trap. Tactics are but accidents, philosophically speaking, something to be changed according to the circumstances.

But could communism not change in essence? Those who believe in this possibility have not fronted what is involved. What is communism in essence? Communism is power, to restate the position. It is power wedded to a mystic vision of world dominion. Or, mysticism or

not, it is power thrusting to the monopoly of all power in the world. Any essential change within communism would necessarily entail yielding up the monopoly of power which has been substantially attained wherever a communist system prevails.

If one party rule were relinquished so that two or more parties could compete, the monopoly of power would be gone. Freedom of speech and freedom of the press entail public debate in which appeals by those who differ are directed toward the populace. They would inevitably divide the populace and undercut the monopoly of power. The same goes for freedom of religion and any significant amount of private property.

### **A Monopoly of Power**

Communist systems have that toward which all socialism tends, namely, a monopoly of power. Why would communists give it up? Better still, what would happen if they did? Communism without power is only a fantasy. It is like an electrical appliance without electricity; it is inoperative. Communism without a monopoly of power is not communism. It would be as if the revolution had not occurred. Communism without a monopoly of power would be, at most, another variety of evolutionary socialism. But evolving toward what? Evolving toward

the monopoly of all power, something which communists had already attained in their own countries.

There is another reason why communism cannot change, or perhaps it is only the logical extension of the reasons given above. *All socialism is braced to communism!*

The idea that has the world in its grip finds its culmination in communism, in the monopoly of all power in the state. All socialist roads lead to Moscow, to Peking, to Havana, or to wherever a communist regime is established. Socialist intellectuals are drawn to these centers as surely as the moth is drawn to the light. Much of the intellectual history of the twentieth century, or at least the history of intellectuals, could be written about these pilgrimages to the New Rome. It is not knowledge that draws them there, nor exactly the quest for it. It is a feeling, a feeling that they will find there the concrete reality toward which they yearn. Whether they do so depends upon the degree to which they cooperate with their hosts by succumbing to the illusions presented for their edification.

If communism should fall—that is, lose power everywhere—the whole structure of socialism must crumble with it. It would happen because there would no longer be a concrete reality to sustain socialism. Socialists would discover that they

were leaning into thin air. The measures of gradualists would be proposals to be treated on their own merits, for they would have no vision behind them. Remove the religious mystic vision from socialism, and its proposals become transparent crackpot schemes.

Communism has often enough been an embarrassment to Western socialists, of course. Communists even commit the unpardonable sin sometimes, i. e., persecute intellectuals. But it is the embarrassment which children feel about the behavior of their parents. Remove the parents, and the family disintegrates. Remove the communist parents of socialism and the family of socialism will disintegrate. Socialism was only a fantasy until World War I. It took on flesh and blood with the Bolshevik Revolution. With the Nazi Revolution it took place in yet another guise. With the defeat of the Nazis and their Fascist allies, revolutionary socialism survived only in its communist manifestation, and it is in that manifestation of it that we may know it best today.

Braces work both ways, however. To say that evolutionary socialism is braced to communism is but another way of describing the dependence of communism on the noncommunist world. The dependence of evolutionary socialism on communism is largely spiritual. It is the religious

ingredient in communism—the vision of a forward marching triumphant world socialism riding the wave of History—that is necessary to sustain evolutionary socialism and propel it onward. By contrast, the dependence of communism upon the noncommunist world is political and economic.

### **Diplomatic Recognition**

Politically, the noncommunist world provides the stamp of legitimacy to the communist powers. By treating them as regular governments—by according diplomatic recognition, by making treaties and agreements, by carrying on various sorts of intercourse—noncommunist powers say, in effect, to the captive peoples in communist countries, “Yours is a legitimate government. It rightfully imposes its will upon you, for it is entitled to all the prerogatives of a government.” More, by recognizing the legitimacy of the regimes, it tends to countenance whatever communist governments do to their people as being their business since such matters involve internal affairs.

Communism is a vast counter-productive system economically. Its primary aim of exercising power and extending that power over the peoples of the world makes it a counter-productive system. It is not that the rulers of communist countries lack the desire to have economic produc-

tion and efficiency; it is rather that the repression entailed in the communist effort makes it impossible to achieve. The freedom to innovate is largely taken away, and the rewards for producing are arbitrary and insufficient to spur production. Hence, the relics of freedom in the non-communist world provide invaluable aid to communism.

Communists depend largely on the noncommunist world for inventions, for technological innovations, and for the fruits of scientific progress. Grain shipments from the West have helped much in staving off famine in communist countries in recent years. Communist rulers lust after Western machinery. Take away the West, and the retrogressive character of communist economies would be even more transparent.

These braces should be conceived as temporary, however. When a building is completed the temporary braces are removed. Communist dependence on the West is always conceived as an expedient matter by communists. In like manner, the dependence of Western intellectuals upon communism is necessary only so long as socialism has not been achieved at home. In short, the mutual dependence is temporary when viewed from either angle.

The greatest threat to peace at the present time, such peace as there may be, is aggressive, belligerent,

and expansive communism. Gradualist socialist countries do not pose any great threat at this time. They are most likely to disturb the peace by resisting the spread of communism. But the prospect of that has lessened in recent years. The United States does not appear to have the will to resist communist expansion now. Indeed, resistance was always hemmed in by such subtle niceties that it was far from effective. So far as other highly developed industrial nations are concerned, their will to resist communism has never been strong.

### **Domestic Problems**

This is not to say that evolutionary socialists are just naturally peace loving people without desire for power. It is rather that each gradualist socialist country has a domestic power problem. Communists usually solve their domestic power problem shortly after coming to power. They concentrate all power, subdue all organizations, and imprison or kill such opponents of the regime as can be discovered or imagined. It takes only a few years to do this ordinarily. Then, the communist thrust for power shifts outward upon the world. Gradualists, by contrast, are unwilling or unable to grasp all power over the domestic population. (They would cease to be gradualists if they did.) Thus, their power struggle con-

tinues domestically; they do not have to look outward in their quest for additional power. Gaining and consolidating power over their own people remains a problem large enough to occupy much of their attention.

The United States has been a partial exception to this rule. The presidential system of government, with the president in charge of the conduct of foreign affairs and in command of the armed forces offers power incentives for foreign involvements. That is, presidential power tends to increase as foreign affairs become more important. This does provide the basis for an outward thrust to American power. However, intellectuals and the media, both domestic and foreign, appear finally to have convinced our presidents that they are not to extend their powers by way of resistance to communism. There is a way, however, to get their accolades; it is to reach accord with communist countries. Presidents Nixon, Ford, and Carter appear to have learned this lesson well. Congress has cooperated by circumscribing the presidential instruments for resisting communism: the military, the Federal Bureau of Investigation and the CIA.

It is conceivable that there could be convergence between East and West. Evolutionary and revolutionary socialism have common

goals—the concerting of all human effort, the removing of all centers of opposition to it, and the use of collectivist means. They both sanction, in practice, the vesting of the state with increasing power. It is plausible to suppose that as the West becomes more and more statist, if indeed it does, it would merge with the East.

### **Convergence a Dream**

Convergence is, however, a dream, and a hope only of Western intellectuals and the politicians under their sway. There is no hard evidence that communists would converge with gradualists. A deeper look suggests how unlikely this is. Total power can be joined to partial power only by either totalizing all power or reducing the total power. Thus far, all the historical evidence that can be brought to bear on the question leads to the conclusion that convergence with communism is submission to communism. That is what happened in Poland, in Hungary, in Czechoslovakia, in Bulgaria, in East Germany, in Vietnam, in Cambodia, and so on. Any survival of contending parties as communists move to take power is only temporary.

In any case, it is not possible at present to converge with communism, *per se*. Communism is now divided. There are communist powers independent of one another. If

convergence with communism were possible it would only be possible to converge with one or another of the communist nations or empires.

Indeed, the Cold War appears to have taken a turn. As this is being written, a submerged conflict has been taking place over Cambodia, a conflict between the Soviet Union which supports the Vietnamese invaders, and Red China which has been supporting another Cambodian government. The more pertinent question now seems to be not whether East and West can co-exist or will converge but whether independent communist powers can co-exist with one another or not, and whether they can converge or not.

We cannot know what will actually happen in this newer contest, of course. What we do know is that the idea that has the world in its grip is a mystic vision of the eventual concentration of all power into one world power. Communism is the most virulent embodiment of the idea. The existence of more than one revolutionary socialist power is more intolerable to communism than the existence of a West that has not been assimilated. The expansion of communism has taken on a new dimension and a new urgency. It is impelled by the quest for communist allies in the struggle over which will be the power center of communism. Terror and violence,

the established communist tactic, will probably be stepped up, as one center of communism attempts to overawe and intimidate the other.

The religious wars of the sixteenth and seventeenth centuries suggest an even more fearful prospect. The religious wars that erupted between Protestant and Catholic lands had been preceded by a more desultory religious war, a centuries-long conflict between Christian Europe and Islam. Although the parallel is not exact, this conflict can be likened to that between evolutionary and revolutionary socialism.

The contest between communist powers has the potentiality of a fullfledged religious war, such as the Thirty Years' War in Europe. No war can equal the fury of that between peoples of the same faith divided against one another. If history repeats itself, the world may be in for a horrendous and cataclysmic conflict. Be that as it may, it is to the conquest of the individual that has already occurred or is taking place that we must turn. The world conflicts of socialism are but a reflex on a grand scale of the determination embedded in the idea to crush all independence. ☉

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Next: 30. *The Individual: The Victim of the Idea.*

# Efficiency in Government

It is always fashionable to criticize governmental waste and ineptitude. People constantly make reference to the fact that most government employees are overpaid and underworked, and that administrative agencies frequently waste resources.

These criticisms contain a grain of truth, but fail to focus on the fundamental issue. Although it is true that many agencies waste resources or pay salaries higher than are paid in the private sector, such censure strikes merely at the symptoms of governmental bureaucracy.

Government functions differently from private enterprise. Industries are organized in a way that maximizes production while minimizing costs. An enterprise

that does otherwise finds itself quickly out of business. Competition among firms stimulates the search for cost-saving measures. Consumers reap the benefits of this in the form of lower prices. Enterprises depend for survival upon the patronage of willing customers. Government, on the other hand, does not look to voluntary contracts for its existence. Government does not rest on the need to maximize production or to minimize cost. The essence of government is organized force, which society utilizes to compel its members to act in prescribed ways, or to punish those members who refuse to obey the law.

If government is to compel people to obey the law, the broader the scope of the law, the more powerful must the government be. As the state assumes increasing responsi-

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Mr. Bechara is an attorney in the law offices of Goldman, Antonetti & Davila in San Juan, Puerto Rico.

bility for activities previously left to private citizens, it becomes necessary for the government to set up additional bureaus or agencies that serve to implement the law. It is futile to censure government bureaucracy on the ground that it does not act in a fashion comparable to that of a business enterprise. The very purpose and nature of these bureaucracies do not allow for such behavior. Even if governmental agencies were managed in a manner similar to a business, it would still be impossible to objectively measure the success or failure of the agency.

### **The Profit and Loss System**

Business organizations have at their disposal a quick and objective method for judging the success of their venture—the profit and loss system. Administrative agencies, on the other hand, lack any such objective measure of efficiency in administering or enforcing a law. And the worst judges of their performance are the agencies themselves, because they have a vested interest in enhancing their work and portraying it as attractively as possible.

At best, there might be some evidence of a general trend, but this is not always useful. For example, an agency may have prosecuted more cases in a given year than the previous year. But this statistic alone does not reveal the nature of the prosecutions. It is possible that one

case has greater significance than many others combined. Similarly, the fact that an agency handled its cases according to arbitrarily drawn time targets is not an indication of its efficiency. Quality is often sacrificed for quantity, as the agency attempts to mold each case to a preconceived time target. Highly unreliable are such measures by which administrative agencies supposedly justify their activities.

Business enterprises have a double incentive to reduce costs of operation: the profit motive as well as the competition in the marketplace. No shareholder is pleased to discover that management has increased its operating costs. Yet, this is precisely what the administrative agencies are doing when they attempt to justify their existence by pointing to the extra millions of dollars spent to operate this year as compared to last year. This is supposed to be evidence that the agency was truly necessary. After all, the more money spent, so goes the logic, the more important the function.

Instructive is the behavior of an agency as it nears the end of its fiscal year. Because they are funded by the legislative branch of the government, agency heads are always trying to persuade Congress that their work will require more funds than were allocated the previous year. If agency heads were to approach the end of the fiscal year

with an operating surplus, this would be tantamount to an admission that their agency did not really need the money it asked for before; and Congressmen would most certainly point this out when the new budget is being discussed. Accordingly, administrative agencies rush to spend every dollar allocated to them. If a surplus is being generated, the agency may take care of it by hiring new employees, or embarking upon additional studies, or by intensifying programs previously neglected. The point, of course, is to persuade Congress that the agency not only is necessary, but that its work is as important as the amount of money needed to pay expenses.

### **No Measure of Efficiency**

The efficiency of an agency cannot be measured by the fact that it leaves either a surplus or a deficit. A surplus may indeed evidence the fact that many areas that could have been covered by the agency were not, so that the implementation of the law in question has suffered accordingly. Similarly, a deficit may signify irresponsible waste on the part of the agency, as it made little, if any, effort to cut costs.

The efficiency of the work of the employees of the agency cannot be effectively measured either. Since there is no profit motive nor a market price for the services that are provided by a governmental agency,

efficiency is translated into subjective terminology. This may be one of the reasons why public employee unions are growing. Public employees find that the merit system is based on many subjective factors, opening the door to favoritism and inequities.

In the private sector, employers are limited by consumers as to the wages that ought to be paid. In addition, employers have the incentive of paying more to the more productive workers to retain and attract good employees and to improve productivity. It is possible, of course, for a private employer to favor the least productive and to award solely on the basis of favoritism. The profit and loss system, however, will limit any such arbitrary behavior.

The public employer, on the other hand, is not constrained by these considerations. Rather, the work of an agency employee is evaluated in clearly subjective ways. If an employee caused an agency to spend more money in a case when he could have, let us say, settled the matter before its having had to go to court, this factor is not taken into consideration. Allegedly objective criteria are utilized to evaluate some of the work of the government employee. However, in the final analysis, it is the personal preference of the agency head that carries the most weight.

Favoritism exists. No matter how

cleverly the agencies may try to suppress it, it will not be effectively eliminated because there are no objective criteria by which efficiency may be measured. How can we measure, for instance, the effectiveness of a policeman? Can it be said that one who caught five burglars is any more efficient than the policeman who happened to be on his beat during an uneventful day? If money is set aside to be awarded to the most efficient employees, it easily lends itself to favoritism and patronage.

When agencies are established to protect the rights of the people, it is not uncommon to find that the law grants the respective agencies a monopoly in the investigation and prosecution of cases that arise under the law. Individuals thus lose the freedom to institute legal proceedings in their own defense. According to these laws, the agency chooses whether or not to assert the claim. Administrative agencies frequently cite the rate of success of their legal actions as evidence of efficiency. However, those statistics are incomplete. Of the actions that were administratively dismissed, no one knows how many would have been litigated successfully had the government allowed the parties to litigate at their own choice.

Administrative agencies frequently under-utilize their resources precisely because cost is not a significant consideration. Many talented agency employees are obliged to perform time-consuming tasks that others might have done more efficiently. Professional employees in these government agencies often are kept busy at clerical chores. Furthermore, as the government becomes more conscious of its "duty" to hire people of diverse backgrounds so that its workforce adequately reflects a sample of the population, exceptions begin to be made; the rules of efficiency that were promulgated previously cannot be enforced according to the letter of the law.

What is the solution to this problem? It is certainly not the abolition of all forms of governmental agencies. Government is essential to a civilized society, regardless of the fact that in performing its functions it may be inefficient. Rather, the solution lies in limiting the duties of government as much as possible in order to avoid this incalculable waste of resources. Limiting government to its appropriate functions would reduce the need for bureaucracies, with consequent saving to the taxpayer and society in general. 

# THINKING ABOUT ECONOMICS



Edmund A. Opitz

MAN is not simply a spiritual being; he is a spiritual being who feels hunger, needs protection from the cold, and seeks shelter from the elements. In order to feed, house and clothe himself, a person must work. Augmenting his labor with tools and machinery, he converts the raw materials of his natural environment into consumable goods. He learns to cooperate with nature and use her forces to serve his ends. He also learns to cooperate with his fellows, his natural sociability reinforced by the discovery that the division of labor benefits all. "Trade is the great civilizer." There's an unbroken thread that runs from these primitive beginnings to the complex

economic order of our own time: it is the human need to cope with scarcity, to satisfy creaturely needs, to provide for material well-being.

The visible signs of this endeavor are all about us; factories, stores, offices, farms, mines, power plants. These are the locations where work is performed, services rendered, goods exchanged, wages paid, money spent, and so on. This is the economy, and in the free society the economy is *not* under government control and regulation.

In the free society the law protects life, liberty and property of all men alike, ensuring peaceful conditions within the community. This lays down a framework and a set of rules, enabling people to compete and cooperate as they go about the job of providing for their material well-being. When government performs

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The Reverend Mr. Opitz is a member of the staff of The Foundation for Economic Education, a seminar lecturer, and author of the book *Religion and Capitalism: Allies, Not Enemies*.

as an impartial umpire who interprets and enforces the agreed upon rules, then the uncoerced economic activities of people display regularity and harmony—as if guided by Adam Smith's invisible hand!

### **The Capitalistic Economy**

In a society where people are free, the economy is referred to as capitalistic. Some prefer the term free enterprise; others like the private enterprise system, or the private property system, or the market economy. Now, of course, no society has ever been one hundred per cent free, which means that we've never had a completely free market economy. Some people have always seized and misused political power to rig the market in their favor. Obviously, it is not the market's fault if some people choose to break the rules.

The appalling thing is that many intellectuals mistake these deviations from free enterprise for free enterprise itself! And so they condemn "capitalism." But the "capitalism" they condemn is actually the failure of certain people to live up to the rules of capitalism—the system of voluntary exchange among uncoerced people. We're aware of human frailties and shortcomings; we know that it's easier to preach than to practice, easier to announce a set of ideals than to live up to them. Economic theory provides us with a description of the way an

economy would work among a people who exercise individual liberty and practice voluntary association. It is this theory we seek to understand and explain, and it is the deviations from this ideal that we seek to correct.

Every person of good will wants to see other people better off; better fed, better housed, better clothed, and well provided with the amenities. So everyone wants the economic order to function efficiently. But how important is it that the economic order be free from bureaucratic direction and political controls? Does it do any harm if we allow the economic order to be quarterbacked by government? Let's examine a concrete example to indicate the serious secondary consequences of government control.

In the economic sector of our society there is a multi-billion dollar industry engaged in the production of newspapers, magazines, and journals of opinion. There is also the book trade. Those who publish and distribute the printed word constitute The Press, and one of the important freedoms cherished in our intellectual heritage is Freedom of the Press. The concept is now extended to cover the media—radio and television—where the same principle applies.

Freedom of the Press means simply that the government does not tell editors what to print and what

not to print—nor does it dictate to purveyors of television commentary. Some editors print stuff they think will sell. Some editors are men of strong conviction trying to promote a cause they believe in; others are party hacks thumping the tub for some ideological idiocy like communism, or anarchism, or the New Left, or whatever. But not a single editor in the country is out crusading for government censorship of the press; except indirectly!

### Editorial Inconsistency

A large number of editors, writers and commentators who demand freedom for themselves in one breath, demand government regulation of business and industry with the next! If, at the urging of The Press, government continues to extend its controls over one business after another, how can anyone believe that government will respect the editorial room as a privileged sanctuary, and keep its hands off that section of business known as The Press? Socialize the economy and The Press becomes a branch of the government bureaucracy, free no longer.

The fact that The Press actively cooperates in its own entrapment makes the end result even more bitter. It is one thing to go down fighting; it is something else to cooperate in your own demise. Political control and regulation of the written and

spoken word means excessive influence over the minds and thoughts of people. It means eventually a ministry of Propaganda and Information, and an Office of Censorship.

If you get the impression that I don't think highly of some of the people involved with The Press, you'd be correct; they are—with notable exceptions—a sorry lot. They, along with their counterparts in the University and in the Church—with notable exceptions—are guilty of that "treason of the intellectuals" denounced by the French writer, Julien Benda, in his 1927 book of that title. The intellectuals' treason in the modern world, wrote Benda, is to abandon the pursuit of truth and to seek political preferment instead.

Lest you think I am being unduly harsh on some of those who refer to themselves as Intellectuals, I shall quote a few words of C. S. Lewis:

It is an outrage that they should be commonly spoken of as Intellectuals. This gives them the chance to say that he who attacks them attacks Intelligence. It is not so. They are not distinguished from other men by an unusual skill in finding truth nor any virginal ardour to pursue her. . . . It is not excess of thought but defect of fertile and generous emotion that marks them out. Their heads are no bigger than the ordinary; it is the atrophy of the chest beneath that makes them seem so.<sup>1</sup>

<sup>1</sup>*The Abolition of Man*, pp. 34-35.

## A Vital Connection

I use The Press to point up the vital relationship between intellectual freedom and economic freedom. Freedom of thought, bound only by the rules of thought itself; freedom of belief, in terms of the mind's own energy; freedom of utterance, guided by logic and within reason—these spiritual freedoms are of the very essence of our being. When they are threatened directly all of us rush to their defense. My point is that they are threatened *indirectly* whenever—and to whatever degree—their material and economic support is straitjacketed by government regulations and controls.

The same analysis would apply to the Academy and to the Church. If the government owns the campus and pays the professor's salary, the teacher becomes a political flunky, no longer free to research, write, and teach according to his best insights and conscience. And when private property is no longer regarded as the *sine qua non* of a free people, when private property suffers increasing encroachments by government, then church properties, too, become politicized. And, as taxes increase and disposable individual income diminishes, private voluntary funding of churches correspondingly declines and religious programs suffer. Accept economic controls, and what then becomes of Academic Freedom and Freedom of Worship?

In short, freedom is all of a piece; philosophy is not the same as digging a ditch, but socialize the ditch-digger and the philosopher begins to lose some of his freedom. Freedom of the marketplace and liberties of the mind hang together as one depends on the other.

The great philosopher, George Santayana, reflected sadly that, in this life of ours, the things that matter most are at the mercy of the things which matter least. A bullet, a tiny fragment of common lead, can snuff out the life of a great man; a few grains of thyroxin one way or the other can upset the endocrine balance and alter the personality, and so on. But the more we think about this situation and the more instances of this sort we cite, the more obvious it becomes that the things Santayana declared matter least, actually matter a great deal. They are so tied in with the things which matter most that the things which matter most depend on them!

## Economic Liberty Paramount

In precisely the same way, economic liberty matters a great deal because every liberty of the mind is joined to freedom of the market, economic freedom. There's an old proverb to the effect that whoever controls a man's subsistence has acquired a leverage over the man himself, which impairs his freedom of thought, speech, and

worship. The man who cannot claim ownership over the things he produces has no control over the things on which his life depends; he is a slave, by definition. A man who is not allowed to own becomes the property of whoever controls his means of survival, for "a power over a man's support is a power over his will," wrote Hamilton in *The Federalist*. Economic planning implies the power to regulate the noneconomic sectors of life.

F. A. Hayek puts it this way in his influential book, *The Road to Serfdom*: "Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends."<sup>2</sup>

In a totalitarian country like Russia or China the government acts as a planning board to assign people to jobs and direct the production and distribution of goods. The whole country is, in effect, a gigantic factory. In practice, there is bound to be a lot of leakage—as witness the inevitable black market. But to whatever extent the State does control the economic life of the Russian and Chinese people it directs every other aspect of their lives as well.

### The Masses Content to Drift

The masses of people everywhere and at all times are content to drift

along with the trend; they pose no problem for the planner. But what happens to the rebels in a planned economy? Suppose you wanted to publish an opposition newspaper in a place like Russia or China. You could not go out and simply buy presses, paper, and a building; you'd have to acquire these from the State. For what purpose? Why, to attack the State! You would have to find workmen willing to risk their necks to work for you; ditto, people to distribute; ditto people willing to be caught buying or reading your paper. A *Daily Worker* may be published in a capitalist country, but a *Daily Capitalist* in a communist country is inconceivable!

Or take the orator who wants to protest. Where could he find a platform in a country in which the State owns every stump, street corner, and soap box—not to mention every building?

Suppose you didn't like your job, where could you go and what could you do? Your job is pretty bad, but it is one notch better than Siberia or starvation, and these are the alternatives. Strike? This is treason against the State, and you'll be shot. Listen to George Bernard Shaw, defending Socialism, writing in *Labor Monthly*, October 1921: "Compulsory labor, with death as the final penalty, is the keystone of Socialism." Shaw was a vegetarian because he loved animals; perhaps

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<sup>2</sup>*The Road to Serfdom*, p. 32.

he was a Socialist because he hated people!

**Point One:** *Economic freedom is important in itself, and it is doubly important because every other freedom is related to it.*

To have economic freedom does not, of course, mean that you will be assured the income you think you deserve, nor the job to which you think you may be entitled. Economic freedom does not dispense with the necessity for work. Its only promise is that you may have your pick from among many employment opportunities, or go into business for yourself, and as a bonus the free economy puts a multiplier onto your efforts to enrich you far beyond what the same effort returns you under any alternative system.

Under primitive conditions a family grows its own potatoes, builds its own shelter, shoots its own game, and so on. But we live in a division of labor society where individuals specialize in production and then exchange their surpluses for the surpluses of other people until each person gets what he wants. Most of us work for wages; we produce our specialty, and in return we acquire a pocketful of dollar bills. The dollars are neutral, and thus we can use them to achieve a variety of purposes. We use some of them to satisfy our needs for food, clothing and shelter; we give some to charity; we take a trip; we pay taxes; we go

to the theater, and so on. The money we earn is a means we use to satisfy our various ends.

These interlocking events—production, exchange, and consumption—are market phenomena, and the science of economics emerged, as Mises put it, with “the discovery of regularity and sequence in the concatenation of market events.”

### **Economics Concerns the Means to Achieve Human Goals**

Economics has often been called a science of means. The economist, speaking as an economist, does not try to instruct people as to the nature and destiny of man, nor does he try to guide them toward the proper human goals. The ends or goals people strive for are, for the economist, part of his given data, and his business is merely to set forth the means by which people may attain their preferences most efficiently and economically. Economics, as Mises says, “is a science of the means to be applied for the attainment of ends chosen.” And a “science never tells a man how he should act; it merely shows how a man must act if he wants to attain definite ends.”<sup>3</sup>

When people are free to spend their money as they please, they will often spend it foolishly—I mean other people, of course! As consumers they will demand—and produc-

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<sup>3</sup>*Human Action*, p. 10.

ers will obediently supply—goods that glitter but are shoddy; styles that are tasteless; entertainment that bores; and music that drives us nuts. Nobody ever went broke, H. L. Mencken used to say, by underestimating the taste of the American public. But this, of course, is only half the story. The quality product is available in every line for those who seek it out, and many do. The choices men make in the economic sector will be based upon their scales of values; the market is simply a faithful mirror of ourselves and our choices.

Now, man does not live by bread alone, and no matter how much we might increase the quantity of available material goods, nearly everyone will acknowledge that there is more to life than this. Individual human life has a meaning and purpose which transcends the social order; man is a creature of destiny.

As soon as we begin talking in these terms, of human nature and destiny, we move into the field of religion—the realm of ends. A science of means, like economics, needs to be hitched up with a science of ends, for a means all by itself is meaningless; a means cannot be defined except in terms of the ends or goals to which it is related. The more abundant life is not to be had in terms of more automobiles, more bathtubs, more telephones, and the like. The truly human life operates

in a dimension other than the realm of things and means; this other dimension is the domain of religion—using the term in its generic sense. Or, call it your philosophy of life, if you prefer.

If we as a people are squared away in this sector of life—if our value system is in good shape so that we can properly order our priorities—then we'll be able to take economic and political problems in our stride. On the other hand, if there is widespread confusion about what it means to be a human being, so that people are confused as to the proper end and goal of human life—some seeking power, others wealth, fame, publicity, pleasure or chemically induced euphoria—then our economic and political problems overwhelm us.

If economics is a science of means, that is, a tool, we need some discipline to help us decide how to use that tool. The ancient promise of "seek ye first the Kingdom" means that if we put first things first, then second and third things will drop naturally into their proper places. Our actions will then conform to the laws of our being and we'll get the other things we want as a sort of bonus.

**Point Two:** *Once we understand that economics is a science of means, we realize that economics cannot stand alone—it needs to be hooked up with a discipline which is concerned*

*with ends, which means religion or philosophy.*

There is no easy answer to questions about the ends for which life should be lived, or the goals proper for creatures of our species, but neither is the human race altogether lacking in accumulated wisdom in the matter. Let me offer you a suggestion from Albert Jay Nock. Nock used to speak of "man's five fundamental social instincts," and he listed them as an instinct of expansion and accumulation, of intellect and knowledge, of religion and morals, of beauty and poetry, of social life and manners. He then makes the charge that our civilization, especially during the past two centuries, has given free reign only to the instinct of expansion and accumulation, that is, the urge to make money and exert influence; while the other four instincts have been disallowed and perverted. Our culture is lopsided as a result, and some basic drives of human nature are being thwarted.

Let's move to the next stage of our inquiry and ask: What is the distinguishing feature of a science, and in what sense is economics a science? Adam Smith entitled his great work *The Wealth of Nations* (1776); one of Mises' books is entitled *The Free and Prosperous Commonwealth* (1927). It is clearly evident that these works deal with national prosperity, with the overall well-

being of a society, with upgrading the general welfare. These are works of economic science, insofar as they lay down the general rules which a society must follow if it would be prosperous.

### General Principles

The distinguishing feature of a science, any science, is that it deals with the general laws governing the behavior of particular things. Science is not concerned with particular things, except insofar as some particular thing exemplifies a general principle. When we concentrate on a particular flower, like Tennyson's "flower in the crannied wall," we move into the realm of art and poetry. Should we want the laws of growth for this species of flower, we consult the science of botany. These books by Smith and Mises lay down the rules a society must conform to if it wants to prosper, they do not tell you as an individual how to make a million in real estate, or a killing in the stock market. This is another subject.

The question before the house in economic inquiry is: "How shall we organize the productive activities of man so that society shall attain maximum prosperity?" And the answer given by economic science is: "Remove every impediment that hampers the market and all the obstructions which prevent it from functioning freely. Turn the market

loose and the *nation's* wealth will be maximized." The economist, in short, establishes the rules which must be followed if we want a *society* to be prosperous; but no conceivable elaboration of these rules tells John Doe that he ought to follow them.

Economic science can prescribe for the general prosperity, but it cannot tell John Doe that he ought to obey that prescription. That job can be performed, if at all, by the moralist. The problem here is to bridge the gap between the economist's prescription for national prosperity and John Doe's adoption of that prescription as a guide for his personal conduct.

### A Science of Means

Economics is a science of means. It abstains from judgments of value and does not tell John Doe what goals he should choose. If you want to persuade John Doe to follow the rules of economics for maximizing the general prosperity you must argue that he has a moral obligation to conform his actions to certain norms already established in his society by the traditional ethical code.

This code extols justice, forbids murder, theft, and covetousness, and culminates in love for God and neighbor. This is old stuff, you say; true, but it's good stuff! It's the very stuff we need when constructing a proper framework for economic activity.

The market economy is not something which comes out of nothing. But the market economy emerges naturally whenever certain non-economic conditions are right. There is a realm of life outside the realm of economic calculation, on which the market economy depends. Let me cite Ludwig Mises again, quoting this time from his great work, *Socialism*. Mises speaks of beauty, health, and honor, calling them moral goods. Then he writes: "For all such moral goods are goods of the first order. We can value them directly; and therefore have no difficulty in taking them into account, even though they lie outside the sphere of monetary computation."<sup>4</sup> In other words, the market economy is generated and sustained within a larger framework consisting of, among other things, the proper ethical ingredients.

**Point Three:** *The free market will not function in a society where the sense of moral obligation is weak or absent.*

Nearly everything on this planet is scarce. There are built-in shortages of almost everything people want. For this reason we need a science of scarcity, and this is economics—a science of scarcity. Goods which are needed but not scarce, such as air, are not economic goods. Air is a free good. Economics

<sup>4</sup>*Socialism*, p. 116.

deals with things which are in short supply, relative to human demand for them, and this includes most everything we need and use. Our basic situation on this planet is an unbalanced equation with man and his expanding wants on one side, and the world of scanty resources on the other.

### **Human Wants Insatiable**

The human being is a creature of insatiable wants, needs, and desires; but he is placed in an environment where there are but limited means for satisfying those wants, needs, and desires. Unlimited wants on one side of this unbalanced equation; limited means for satisfying them on the other. Now, of course, it is true that no man, nor the human race itself, has an unlimited capacity for food, clothing, shelter, or any other item singly or in combination. But human nature is such that if one want is satisfied the ground is prepared for two others to come forward with their demands. A condition of wantlessness is virtually inconceivable, short of death itself.

What does all this mean? The upshot of all this is that the economic equation will never come out right. It's insoluble. There's no way of taking a creature with unlimited wants and satisfying him by any organization or reorganization of limited resources. Something's got to give, and economic calculation is the human

effort to achieve the maximum fulfillment of our needs while avoiding waste.

Let me, at this point, offer you a little parable. This story has to do with a bright boy of five whose mother took him to a toy store and asked the proprietor for a challenging toy for the young man. The owner of the shop brought out an elaborate gadget, loaded with levers, buttons, coils of wire, and many movable parts. The mother examined the complicated piece of apparatus and shook her head. "Jack is a bright boy," she said, "but I fear that he is not old enough for a toy like this."

"Madam," said the proprietor, "this toy has been designed by a panel of psychologists to help the growing child of today adjust to the frustrations of the contemporary world. No matter how he puts it together, it won't come out right."

### **Relative Scarcity**

Economics is indeed the science of scarcity, but it's important to realize that the scarcity we are talking about in this context is relative. In the economic sense, there is scarcity at every level of prosperity. Whenever we drive in city traffic, or look vainly for a place to park, we are hardly in a mood to accept the economic truism that automobiles are scarce. But of course they are, relative to our wishes. Who would

not want to replace his present car with a Rolls Royce if it were available merely for the asking?

These simple facts make hash of the oft repeated remark that "we have solved the problem of production, and now we must organize politically to redistribute our abundance." Economic production involves engineering and technology, in that men, money, and machines are linked to turn out airplanes, or automobiles, or tractors, or typewriters, or what not. But resources are limited, and the men, money, and machines we employ to turn out airplanes are not available for the production of automobiles, or tractors, or anything else. The dollar you spend for a package of cigars is no longer available to you for a hamburger.

The economic equation can never be solved; to the end of time there will be scarce goods and unfulfilled wants. There will never be a moment when everyone will have all he wants. "Economics," in the words of Wilhelm Roepke, "should be an anti-ideological, anti-utopian, disillusioning science,"<sup>5</sup> and indeed it is. The candid economist is a man who comes before his fellows with the bad news that the human race will never have enough. Organize and reorganize society from now till doomsday and we'll still be trying to

cope with scarcity. This truth does not set well with those who have the perfect solution in hand—and the woods are full of such. No wonder economists are unpopular!

**Point Four:** *Things are scarce, and therefore we need a science of scarcity in order to make the best of an awkward situation.*

The modern mind takes the dogma of inevitable progress for granted. Most of our contemporaries assume that day by day, in every way, we are getting better and better, until some day the human race will achieve perfection. The modern mind is passionately utopian, confident that some piece of social machinery, some ideological gadgetry, is about to solve the human equation. Minds fixed in such a cast of thought, minds with this outlook on life, are immune to the truths of economics. The conclusions of economics, in their full significance, are incompatible with the facile notions of automatic human progress which are part of the mental baggage of modern man—including many economists!

I'm not denying that there is genuine progress in certain limited areas of our experience. This year's color television set certainly gives a better picture than the first set you bought in, say, 1950. The jet planes of today deliver you more rapidly and in better shape than did the old prop jobs—although there's some

<sup>5</sup>A *Humane Economy*, p. 150.

truth in the remark of some comedian: "Breakfast in Paris, luncheon in New York, dinner in San Francisco—baggage in Rio de Janeiro!" Automobiles are more luxurious, we have more conveniences around the house, we are better equipped against illness. There is real progress in certain branches of science, technology, and mechanics.

But are the television programs improving year by year? Are the novels of this year so much better than the novels of last year, or last century? Are the playwrights whose offerings we have seen on Broadway this season *that* much better than Shakespeare? Has the contemporary outpouring of poetry rendered Homer, Dante, Keats and Browning obsolete? Is the latest book on the "new morality" superior to Aristotle's *Ethics*?

Are the prevailing economic doctrines of 1979, reflecting the Samuelson text, sounder than those of a generation ago, nourished on Fairchild, Furness and Buck? Are today's prevailing political doctrines more enlightened than those which elected a Grover Cleveland? Henry Adams in his *Education* observed that the succession of presidents from Washington, Adams and Jefferson down to Ulysses Grant was enough to disprove the theory of progressive evolution! What would he say if he were able to observe the recent past?

The dogma of inevitable progress does not hold water. Perfect anthills may be within the realm of possibility; but a perfect human society, never! Utopia is a delusion. Man is the kind of a creature for whom complete fulfillment is not possible within history; unlike other organisms, he has a destiny in eternity which takes him beyond biological and social life. This is the world outlook of all serious religion and philosophy. The conclusion of economics—that life holds no perfect solutions—is just what a person who embraces this world view would expect. Economic truths are as acceptable to the religious world view as they are unacceptable to the world view premised on automatic progress into an earthly paradise.

### **Another Dimension Transcends the Natural Order**

If there is another dimension of being which transcends the natural order—the natural order being comprised of the things we can see and touch, weigh and measure—and if man is really a creature of both orders and at home in both, then he has an excellent chance of establishing his earthly priorities in the right sequence. He will not put impossible demands on the economic order, nor will he strive for perfection in the political order. Earth is enough, so he'll leave heaven where it belongs, beyond the grave! The effort to build

a newfangled heaven on earth in countries like Russia and China has resulted in conditions that resemble an old-fashioned hell. Let us strive for a more moderate goal, let us work for a tolerable society—not a perfect one—and we may make it!

**Point Five:** *Economics tells us that the Kingdom of God is beyond history.*

Economics is a discipline in its own right, but it has some larger meanings and implications. Its very

nature demands a framework in which there are religious and ethical ingredients. Establish these necessary conditions—together with their legal and political corollaries—and within this framework the economic activities of men are self-starting, self-operating, and self-regulating. Given the proper framework, the economy does not have to be *made* to work; it works by itself, and it pays rich dividends in the form of a free and prosperous commonwealth. 

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Shari Gifford

## The Effects of Regulation on an Industry



WHAT A SITUATION! A person, who has decided to go into business for himself, discovers that he must first obtain a license from the government. To get the license he must prove to the authorities that he is a citizen of moral character with financial, technical and other qualifications. He must describe in detail all equipment, buildings, location and any other apparatus necessary

for operation. He must describe his proposed production techniques, including times of operation. He must survey the community leaders to determine the needs of the community and describe how he proposes to meet these needs. He must also show that he is financially capable of setting up and operating his business for one year without any revenue from the sale of his product.

To facilitate the acquisition of the license he must hire a lawyer in

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Shari Gifford is a student of economics at the University of Florida.

Washington, D.C., spend tens of thousands of dollars, and wait perhaps five years before the license is approved. He must also have a permit from the same regulatory agency to begin construction of his operating facilities and must apply for an extension of the permit if construction is delayed by causes beyond his control. Before beginning operation, he must have approval of his operating hours and the name of his company.

If he should die or become legally disabled, permission must be obtained for transfer of control to a legally qualified successor. If he lives long enough to want to expand his business, he must obtain permission for that also.

Every three years he must apply for renewal of his license to continue operating his business, at which time he must supply detailed examples of his previous production process and proof that he has used a sufficient amount of a certain factor which the authorities consider beneficial to society but which may actually be unproductive. At this time he may be denied permission to continue operation.

Considering the difficulty of obtaining a license, the high costs involved, and the eagerness with which licenses are sought, it seems safe to assume that the possible return on investment is high.

This has been a brief and incom-

plete description of some of the regulations of the radio broadcast industry imposed by the Federal Communications Commission. The FCC was brought into being by the need to allocate a scarce resource—the radio wave bands. The Radio Act of 1927 gave the Federal Radio Commission (now the FCC) the power to license radio broadcast stations according to guidelines, a few of which have been listed above.

### **The Rationale for Licensing**

Licensing was deemed necessary because of the limited number of frequencies and the impossibility for simultaneous broadcasts on the same frequency in the same area at the same time. But the limits to competition in the radio broadcast industry caused by the barriers to entry—namely, limited and costly licenses and the high costs of meeting regulatory requirements—does a disservice to the listening audience by limiting their choices of broadcast entertainment and a disservice to advertisers by increasing the cost of advertising on the radio.

A radio broadcaster produces one product, an audience to sell to advertisers. His inputs are land, labor and capital (buildings, equipment, license). The costs of these factors can run into millions of dollars a year. The production process is his programming, which is geared to attract the largest audience to sell to

advertisers. Local advertising sales are a station's major source of revenue. Radio stations direct their programming toward a particular age or social group and advertisers choose the station from which to buy time according to the group of people they wish to reach. Small communities often have only one station serving a particular group and so it may be considered the only supplier of that audience. This is in effect a monopoly, with other radio stations or newspapers as partial substitutes.

The number of competing stations is limited by the relative unavailability and high costs (in money and time) of new licenses. The number of licenses available is restricted, of course, by the desire to avoid interference by one station with another. But the number of licenses is also limited (by the FCC) according to the population of the community. Smaller communities are allocated fewer frequencies. Also, powerful distant stations are allowed a large range of reception which precludes the use of their frequencies in neighboring communities. The unavailability of new licenses, of course, increases the value of existing licenses, which amounts to a windfall gain for the original licensee. Nevertheless, many licensed broadcasters consider most FCC regulations to be costly, wasteful, and inappropriate in relation to the

freedom of other news and entertainment media.

### **Alternative Allocation Methods**

The allocation of frequencies to prevent interference is necessary. However, the present method of allocation is questionable because of the amount of government intervention and regulation it entails. Alternative methods come to mind that would require little if any detailed government control.

One method would be to allocate newly available frequencies to the highest bidders. This would tend to keep the cost of licenses high. But, at least, it would allocate the frequencies to those who value them most. Another method could be the allocation of frequencies by draw, thereby awarding some licenses to people who could not afford to bid high enough. This, however, may result in a misallocation of resources as some frequencies would go to low-value users. A third method could be on a first come, first served basis with a "homestead" provision that would require the recipient of the license to commence broadcasting within a specific period of time. This last method would be similar to the present method if there were not also the elimination of the volumes of requirements and regulations that control the broadcasters now.

Once a license has been given (sold, awarded or earned), the nor-

mal success motives, talents and abilities of the licensee should be all that is needed to determine whether the station operates successfully or joins the ranks of thousands of business failures that occur every year in other industries. Success or failure would be determined by the ability of the station to attract an audience. Thus, the broadcaster would be guided by the market to offer what the public demands, not what the FCC mandates.

The elimination of the FCC rules and regulations would decrease the operating costs of stations considerably and also allow for more local stations. Their increasing competition for advertisers would lower costs of advertising. Local advertisers, who supply most of a station's revenue, are interested in the local market; therefore, the restriction of stations to local broadcasting to prevent interference in neighboring communities would not reduce their attractiveness to advertisers and would allow the existence of more frequencies in each community. The

increased number of stations would increase the service to the public by providing a larger variety of entertainment and news.

In short, the FCC controls in minute detail the ownership and operation of all radio broadcasting, ostensibly to achieve efficiency, equity, safety, and satisfaction of public needs. The primary results of these regulations are to protect the stations from competition and to limit the satisfaction of the radio audience. Just as the airline companies, with the recent deregulation of the airline industry, experienced an increase in profits, so the broadcast industry would see an increase in the quantity of air time demanded and an increase in profits if the restrictions and costs of regulation were eliminated. Just as more people are now enjoying what was once the luxury of flying, so more people would enjoy listening to their radios with an increase in amount and variety of broadcasting offered. 

### Hanford Henderson

WE ask of the State and Society only one thing—a fair field and no favors. This does not mean the raw anarchism of the tramp and hoodlum, for such anarchism would have no government whatever; but it does unequivocally mean a strict limiting of the functions of government, a strict cutting out of all paternalistic activities, and the unfaltering insistence that government shall really perform its basic and fundamental duty, the protection of the individual citizen from violence and interference.

IDEAS ON



LIBERTY

Ridgway K. Foley, Jr.

# ON RECAPTURING LIBERTY



HUMAN HISTORY reflects man's tale as a continuing epic scramble between the concept of freedom and the human tendency to coerce others. Parallel to this combat appears mankind's skirmish with nature, his never-ceasing attempt to overcome his frailty and to improve his material and spiritual lot in life. These dual endeavors are not wholly separate battles; they are related aspects of human action.

Free men devise better ways to cope with the relentless problems of living posed by finite and sometimes irrational men inhabiting an infinite and ever orderly universe. The material advancement and human betterment marking the first century of American history bear dramatic witness to this truth. Con-

versely, slaves tend to live poorly, produce fewer results, exhibit more pettiness and contentiousness, and think less creatively than persons enjoying relative freedom. The oppressed possess no incentive for improvement, thereby limiting the creative endeavors of society to the narrow perimeters of the master's mind.

History consists primarily of unending constraints garbed in varying guises. "Man's inhumanity to man" conveys a warped picture of reality, for restrictions often flow from humane creatures possessed of the best of intentions coupled with gross myopia.

American citizens currently experience substantially less liberty than their forefathers, and each passing generation sinks more rapidly into the mire of bondage. Concomitantly, every moment wit-

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Mr. Foley, a partner in Souther, Spaulding, Kinsey, Williamson & Schwabe, practices law in Portland, Oregon.

nesses an almost imperceptible but inexorable erosion of the worth of the individual and his ability to combat the external world. In the battle of freedom versus coercion, the latter is winning handily.

Mankind has learned to control flood, famine and pestilence; it has also developed expertise in controlling those human actors who seek different creative alternatives, who make disparate choices, and who think outside the traditional channels. The recapture of liberty merely refers to a return to a condition of greater individual choice and less governmental coercion; it does not imply a conservative reversion to some prehistoric Golden Age, for it envisions an incessant movement toward ever increasing freedom once the foothold of the past has been regained.

Reflection envisions our task as that of surmounting a progressive stairway of three steps of increasing depth and difficulty:

- (1) Recognition that a problem exists and awareness of the nature of that problem;
- (2) Comprehension of the theoretical solution to that problem by application of the philosophy of human freedom;
- (3) Implementation of the solution by a program of action calculated to apply the theoretical cure to the existing problem.

This paper examines the stairway to greater creativity and a freer life. It does not purport to exhaust the analysis, but rather to introduce the subject and illuminate the way for others to follow, each person impressing his or her own unique and individualistic imprimatur upon the task.

## I. Cognition of a Problem

Few reflective persons would disagree with the declaration that problems beset the current world. A cursory glance at one's surroundings reveals a host of upsetting and perplexing worries attending mankind in general and creative man in particular. Examples include:

- The reduced military preparedness of relatively free and Christian nations, a reduction which threatens the very survival of liberty.

- A paralyzing and demoralizing condition of depression and hyperinflation, illuminating gross misallocations of choice and resources, as well as destroying the compass used by the average citizen to plan his affairs.

- The rapid increase in violent and senseless criminal conduct, displaying an utter disregard for the sanctity of human life and property.

- An ineluctable breakdown in the traditional values and spirit of sympathy, cooperation and neigh-

borliness, and the concomitant development of contentiousness and litigation-mania.

- A growth of a series of counter-cultures which feature drug addiction, sloth, slovenliness, theft, and sexual promiscuity in place of self-reliance, pride and creativity.

- An enveloping state which witlessly creates problems out of supposed cures and endlessly regulates and oppresses the individual into a mere pawn of little repute and no inherent value.

The list of concerns appears boundless. One should accept the foregoing as illustrative rather than exhaustive. The mere fact that certain thinkers place greater emphasis upon one problem to the exclusion or diminution of others should not detract from the existence of all competing concerns.

### The Specter of Subjugation

A startling fact is that the most severe and depressing problems assailing mankind today derive *not* from his combat to survive in the external world but rather as the result of man's aggression against, and oppression of, his neighbor on this planet. War, monetary chaos, crime, and societal disintegration stem not from natural forces but germinate in the hearts of individual actors. Thanks in large part to a past century of relative freedom,

man today fears disease, flood, famine, pestilence, fire and earthquake less than ever before—but he should quake at the specter of subjugation at the hands of his artful fellows, practiced as they are in the art of harassment, maltreatment and abuse.

However, past advances against natural forces do not herald continued headway in this regard. History repeats only if conditions remain static; liberty forms a most salient causal condition for human development; demolition of freedom means reduction both in material and spiritual satisfaction and in the tools useful in jousting with the universe. Citizens in the United States have lived well in the past fifty years despite increased depredations by the state. This well-being has produced a narcotic euphoria, a belief that good things will continually appear; in fact, we have lived as parasites off the results of relative freedom practiced during the first century of American history, and the horizon portends a significant decrease in the goods, services and ideas emanating from our predecessors.

The enumeration of "problems" conceals the reality that the concerns recited, and others too numerous to mention, emerge from a single, multifaceted problem, the sinister tendency of man to coerce others. Inflation, wars, bondage, regulation,

taxation, crime, looting, all partake of common roots; figuratively, they represent various aspects of the same edifice, as the walls, windows, and chimney of a tall building. We deal with many features of a single problem; once we accept this fact, the more likely we will emerge victorious from the fray.

Reduced to simple and basic terms, man's problem today remains identical to that which has hindered and challenged men from the times of Moses and Socrates: A predilection to power. Men enjoy subjective values. Each actor can pursue his destiny by applying his dynamic subjective value scale to the orderly world in which he resides. Application of these preferences may take one of two wholly distinct pathways: choice or power. One may coerce, or create. He may achieve his ends by the use of force and the coercive application of power against his fellow citizens, depriving them of *their* choices based upon *their* subjective values, or he may cooperatively apply his skills to the voluntary achievement of ends he deems important. He cannot combine both attitudes, for the coercive aspects will overwhelm the creative.

## II. The Solution: A Philosophy of Freedom

Surprisingly few individuals even care to mount that halting first step, and a relatively small portion of

those who attempt the climb master any but an uneasy balance and a stilted posture thereon. Yet the second step offers an even more grand challenge, for it compels one to deduce an answer to the problem posed on the first foothold: How to solve the multifaceted dilemma of man's tendency to employ power to conquer human choice?

Here, as elsewhere, man enjoys alternatives, the ability to choose between competing courses of conduct. He may choose a world dominated by force or he may choose a world ruled by choice. Man possesses all of the frailties of a finite nature. One characteristic of this finity appears in his thrust for power, his tendency to trample the rights and longings of other inhabitants in a relentless surge to his own goals. Yet, another trait coexists with this dark side of human nature: Man possesses the ability to improve, to cooperate, to choose, to achieve, to improvise, through voluntary social action. Man will solve many of the aspects of the puzzle besieging him if he selects the contract in place of the bludgeon.

Given this state of affairs, mastery of the philosophy of freedom becomes imperative. Allow me to suggest six basic postulates upon which liberty rests: (1) Personal freedom, (2) individual responsibility, (3) private property, (4) a mar-

ket economy, (5) limited government, and (6) subsidiarity. Each postulate contains a wealth of subissues for enlightenment, consideration and discussion. I mean in this regard to merely touch upon each axiom in passing, leaving a detailed study for another time.

**Personal Freedom.** The doctrine of personal freedom forms the touchstone for any study of the philosophy of liberty. Freedom means naught without *individual* liberty of action and freedom of choice. Talk of social or group freedom descends into meaninglessness: Such phrases merely provide a euphemism for coerced action substituting the subjective values of the leaders, or those enjoying power, in place of the value preferences of individual actors. The essence of personal freedom resides in the major premise that it is both morally propitious and pragmatically efficacious that each individual human being remain able to seek his own destiny without the aggressive intervention of mankind.

**Individual Responsibility.** The concept of individual responsibility refers to the reverse side of the "personal freedom" token: One cannot exhibit meaningful freedom unless he remains ever willing to abide by the natural consequences of his choice freely exercised. We inhabit a world where action produces conse-

quence by the inexorable grinding of natural law. Individual responsibility marks the willingness and ability of the actor to accept the results of his acts rather than shunting the consequences onto the shoulders of his neighbors who did not make the choice in the first instance.

**Private Property.** One who accepts the premise of a personal right to free choice and action must logically and necessarily defend the concept of private property against its many and varied invaders. A right to live one's life apart from the aggression of others rationally includes the right to produce, maintain, and transfer all value created, whether in the form of goods, services or ideas. One repetitive aberration in the modern world concerns the person who decries state-imposed theology while applauding governmental regulation of productive pursuits. Freedom of speech, of religion, of press, and of association mean little where individuals or groups, by legally-sanctioned power, can control meeting houses, newspaper, sound trucks and billboards.

**Market Economy.** Again, both moral and material reasons support the voluntary exchange or market system of transfer: Such an institution produces more and better goods, services and ideas at a lower cost,

and such a system harmonizes with the fundamental doctrines of personal freedom, individual responsibility, and private property; they thrive in no other garden. Whether mislabelled "free market," "free trade," or "free enterprise," the market economy imposes no limitations upon the nonaggressive transfer of created value between willing individuals and groups.

**Limited Government.** The theory of limited government lends political support to the economic doctrine of a voluntary market. In order to effect a society which displays personal freedom, individual responsibility, private property and a market system of exchange, certain governmental preconditions must exist. On the one hand, the state must not impose strictures upon free nonaggressive action, be it in the form of regulation, taxation, subsidies, rules or orders, for to do so would amount to a denial of the tenets stated. On the other hand, the state must exert some force and apply some sanction, in its role as the repository of community power, lest the baleful nature of mankind discussed in the first section of this article take precedence. Community action must tread deftly between the quagmire of restraint and the nightmare of anarchy. The proper role of the state rests in the restriction and punishment of initially-

aggressive human action—the prevention of force and fraud—and in the peaceful settlement of otherwise insoluble disputes between citizens by means of orderly and established rules of law.

**Subsidiarity.** Finally, the doctrine of subsidiarity provides a means of governmental decision-making appropriate to the limited government idea. Subsidiarity merely refers to the normative rule that no higher or more general organ of government will issue a rule or determine an order when the same task can be accomplished by a lower and more specialized form of government. The limited government theory presupposes that the state which governs least, governs best, while subsidiarity expresses the proposition that the government nearest the affected society, governs best, in regard to those matters which deserve state attention.

Properly understood, these six principles of freedom provide the basis for comprehension of the philosophical foundations of liberty. In addition, once explained, they establish grist for the explanation of such related doctrinal disciplines as natural law, natural rights, sovereignty, police power, state action, public interest, society, diffusion of risk, justice, egalitarianism, and choice.

Furthermore, these same six principles exhibit the additional virtue of truth—they reflect the orderly reality of the universe. One can deny their existence but he cannot thus obscure their validity. One can disparage their efficacy, but he must stand willing to pay the natural law cost exacted for his denial of truth. A controlled economy will necessarily produce fewer and shoddier goods, services and ideas than a voluntary market; those who promote national health insurance, wage and price controls, or unreasonable restraints against market entry must accept the *fact* that their action, if successful, will insure a health care crisis, unemployment, and unhealthy monopolies in the examples cited. One disobeys natural laws or denies natural rights only at a cost universally imposed; few recognize that toll and fewer still can accept the result of their conduct.

### III. On Implementing the Solution

However difficult the first two steps on the stairway to liberty, the final run affords a more intense and testing challenge yet. This third plateau consists of the question of appropriate action: in a phrase, how to spread the concept of liberty to others, assuming that one has at least partially surmounted the issues of the problem and the solution.

The key word in this endeavor is *consistency*. Freedom can only be

achieved by reason, never by force. Liberty and power exist as antitheses and alternatives; thus, one who loves liberty cannot effectively or justly employ power to accomplish the nemesis of power—freedom. Consider the inquiry in the light of fundamentals: Force and freedom pose a contradiction of terms. I cannot impose my subjective value structure upon an unwilling recipient without depriving him of his freedom of choice and action, even if his uncontrolled conduct would cause him harm in my considered opinion. Were it otherwise, good intentions would forever justify interposition of force—and that marks the precise problem confronting the modern world!

An example may clarify the point. Health care poses a real concern to many citizens; good health affords a pleasant life, as much as nutrition, air, water, attire and shelter. The common solution to allocation of resources for health care appears to consist of massive doses of governmental funds alternated with an even greater degree of regulation. Yet, the government possesses only such goods, services or ideas as are coercively appropriated from producing citizens.

### Compulsory Sharing

Federal funds represent value removed from creative citizens by means of compulsory taxation; state

regulation represents deprivation of free action or removal of choice of alternatives from some human actors. Thus, this common solution fails to accord with the most basic principles of liberty. It denies personal freedom and choice, individual responsibility, private property, voluntary market solutions, and limitations on government action. In addition, it really supplies no solution at all, but actually intensifies the ailment. Compulsion drives producers from the market, misallocates resources, incurs an excessive handling charge, reduces the quality of the service, and penalizes producers.

Nevertheless, some followers of the freedom philosophy propose to alleviate their condition by a forceful attack upon the problem and the common solution. One cannot improve matters by introducing rifles in place of syringes. Talk of violent revolution, *coup d' état*, and insurrection fails to accord with the principles of freedom to the same extent as the "common solution": I cannot force you to be free at sword point.

All manner of directives emanate from the assembly halls and executive mansions across the land each day, most of them aimed at the cure of real or feigned ills, none of them effective to correct the malaise. Indeed, the application of power necessarily magnifies the subsisting cause in place of effecting a cure.

Deep truth prevails in the old saying, "There is no problem on earth that the meddling of a politician will not make worse."

If forceful means provide an inapt device to implement the freedom solution, we must repair to an alternative source. The alternative to power is freedom. Implementation of the freedom philosophy requires use of freedom principles to effect the goal of liberty. In brief, we can achieve a voluntary society only by acting in conformity to the basic principles outlined in the second section of this essay. One must use persuasion, contract and example instead of imposition, status and requirement.

### **No Blueprint Available, for Freedom Is Unpredictable**

Those who seek a blueprint for action in these words may be sorely disappointed. I know the principles, not the particulars. I know how liberty can be recaptured, not the details of the encounter. The curious and convincing feature of liberty remains its open texture; a free society consists of myriad human actors voluntarily seeking their personal ends in an orderly and rational world; one cannot predict the direction of free action, only that it will harmonize most nearly with the Infinite Truth of the universe.

However, adherence to consistent tenets of liberty does not necessarily

compel one to sit idly by while the state mulcts him of his created value. The precise manner selected by any particular person to advance the course of human freedom depends upon that individual's choice, which in turn depends upon his personal value structure and perception of truth. I cannot propound a battle plan and command all who would join me to repair to my banner, for to do so would be a compromise of the very principle of choice, of fundamental human action. Each of us must choose his path, learning from others and constantly evaluating his principles, his strategies, and his successes or failures.

Nevertheless, this reticence to prescribe philosophical or political medication in absolute terms need not deter one from suggesting some effective procedures.

**Light a Candle.** One who learns the problem and the solution well may practice the conveyance of his wisdom in a disarmingly simple manner: He may live his life consistently with the principles espoused. No form of communication exceeds that of an exemplar. Think what could be wrought if literally thousands of citizens refused to accept social security or medicare checks, or failed to employ "taxpayer identification numbers," or opted not to cast a ballot to either of two unholy thugs seeking an office.

**Explanation of Action.** The second aspect of activism builds on the foundation of the first. Once the actor learns to light his candle in the darkness, he must develop skills at communication, for the light will attract others interested in his conduct and its underlying rationale. Few individuals possess substantial skill in comprehending the philosophy of freedom, and fewer still exhibit much aptitude in explication; it represents a subject deserving of attention and nurture.

Accept a respectful *caveat*: Beware of preaching and forceful exposition. Most listeners and readers shy away from the effusive and emphatic proponent who literally or figuratively grasps his hearer's lapels and seeks to shake the truth into him. Infinitely greater success attends those who live a consistent life and explain their action calmly and without hyperbole *when asked*.

**Exercise the Franchise Wisely.** Many misguided souls view the electoral process as the answer to our prayer: "If only we could elect our guys, everything would straighten out." Political figures, however, partake of the identical frailties afflicting mankind, and exhibit all the glaring defects of character which mar the nature of man. Indeed, since politics rests upon power, political action generally seems inimical to liberty. Politicians lust for power,

WHEN it is time to vote, apparently the voter is not to be asked for any guarantee of his wisdom. His will and capacity to choose wisely are taken for granted. Can the people be mistaken? Are we not living in an age of enlightenment? What! are the people always to be kept on leashes? Have they not won their rights by great effort and sacrifice? Have they not given ample proof of their intelligence and wisdom? Are they not adults? Are they not capable of judging for themselves? Do they not know what is best for themselves? Is there a class or a man who would be so bold as to set himself above the people, and judge and act for them? No, no, the people are and should be *free*. They desire to manage their own affairs, and they shall do so.

But when the legislator is finally elected—ah! then indeed does the tone of his speech undergo a radical change. The people are returned to passiveness, inertness, and unconsciousness; the legislator enters into omnipotence. Now it is for him to initiate, to direct, to propel, and to organize. Mankind has only to submit; the hour of despotism has struck. We now observe this fatal idea: The people who, during the election, were so wise, so moral, and so perfect, now have no tendencies whatever; or if they have any, they are tendencies that lead downward into degradation.

FREDERIC BASTIAT, *The Law*

thus insuring that the worst and most defective of men will place their names on the ballot, in place of the righteous who generally do not wish to substitute their judgment for that of their fellowman. Thus, the polling place offers small solace to one who desires to reinstitute liberty.

This is not to say that a lover of freedom should boycott the ballot, although that choice certainly represents his prerogative. On occa-

sions, a refusal to vote may constitute the highest form of citizenship; on other, all too seldom, instances, one may actually exercise his franchise in a meaningful manner by voting for one who truly believes in liberty.

Furthermore, too many of us equate the ballot box with election of *men*—governors and presidents, senators and representatives—rather than the decision of issues. In some political units, the voter enjoys

participation in the political process by means of a direct election system, normally consisting of the initiative, the referendum and the recall. Here, the devotee of freedom can utilize the franchise for two discrete purposes, both completely harmonious with the principles of liberty: He can propose legislation which expands freedom of choice and removes restrictions on nonaggressive human conduct, he can sponsor repeal of constraining laws, or he can champion recall of venal officials. In so doing, the actor employs the ballot box to secure freedom in a nonaggressive manner and, even if unsuccessful, he may attract and persuade interested, like-minded persons to his banner.

**Fight for Your Rights—Nonviolently.** Recall the proper functions of the state: Prevention and punishment of aggressive force and fraud, and settlement of otherwise insoluble disputes. The dispute-determining process involves the administration of a common system of justice and, hence, a court procedure. The state, its servants, and its proponents may be answerable to your summons in a judicial atmosphere. It is perfectly consistent with the principles of liberty to commence an action, suit or proceed-

ing at law or in equity to determine and thwart a violation of your rights. As with the direct legislative process, even a substantive loss in the courts may amount to a tactical victory for persuasion and common sense. A jural system provides the appropriate atmosphere for a non-violent and nonaggressive resolution of crucial issues on a rational basis. It does not possess perfection, being peopled with finite creatures, but it represents the best process developed in human history.

### Epilogue

Mastery of the problem besetting the world we inhabit can develop from the tripartite process put forth in this essay. The answer is not easy because of the complexity of the inquiry and the human resistance to the solution offered by the philosophy of freedom. The fractious side of human nature causes not only the problem but also the hostility to the solution and the ineffectiveness of the implementing devices. Yet hope exists precisely because of the reality of human nature, for man displays a higher facet as well as a sinister visage. Appeal to this brighter aspect represents the means of regeneration of mankind and the mode of the recapture of liberty. ☯

# In Defense of the Corporation

In the now distant Nineteen Thirties Senator Joe O'Mahoney of Wyoming carried on a one-man crusade for the federal chartering of corporations. I remember his expounding on his favorite thesis that the corporation was a special creature of the state, a fictitious entity with no inherent rights of its own. He hoped a federal incorporation law would help the work of that other fractious Wyoming native, the trust-busting Thurman Arnold, in prosecuting alleged monopolies.

Creatures of the state, said O'Mahoney, should obviously be subject to license by the state. True enough, the majority of big American corporations seemed to be incorporated already in the state of Delaware, so why the need for federal chartering? O'Mahoney's logical answer was that the normal corporation was set up to do business on a continental scale, so it was to the federal government that it should apply for the right to exist.

O'Mahoney's crusade, a casualty

of World War II, has been pretty much forgotten, but now Ralph Nader has picked it out of the dustbin of history without much concern about giving his predecessor credit for it. The new life that Nader has pumped into the O'Mahoney theory has provoked Robert Hessen, an authority on the steel industry, into joining issue with Nader and all his anti-corporate raiders. Hessen's own trail-blazing book on corporate theory, *In Defense of the Corporation* (Hoover Institution Press, Stanford, California 94305, 127 pp., \$7.95 hardcover) is an eye-opener to me, for I had always considered that the one issue of corporate limited liability did involve a special state dispensation. Mr. Hessen now tells me that I have been wrong, and he puts up a strong historical and legal argument for his case.

The notion that the corporation is a creature of the state is deeply embedded in the common law. The reason for this, says Hessen, is that in feudal England, when the com-

mon law evolved, only the king had the power to endow groups of individuals with special rights—really permissions—to do anything. Guilds, with royal charters, were empowered to establish their own price and wage controls. The medieval church, a corporation, held its lands in feudal tenure. Every association, from a university to a hospital, was in or of the system set up by William the Conqueror to insure that nobody should have an inalienable right of his own. In the late seventeenth century, parliament cut itself in on the deal, assuming its responsibility for protecting “English liberties,” but it was never conceded in England that any right was “inalienable.” It took the Virginian, Thomas Jefferson, to assert inalienability for the American colonials.

Unfortunately, that other Virginian, Chief Justice John Marshall, who was steeped in the legal commentaries of Sir William Blackstone, chose to paraphrase English authorities going back to Lord Chief Justice Coke when, in the Dartmouth College case of 1819, he declared that “a corporation is an artificial being, invisible, intangible, and existing only in contemplation of law.” Marshall’s opinion has ruled ever since. But why, so Hessen asks, should precedents evolved by the courts to apply to medieval feudal institutions be extended to business

corporations created centuries later to expand the inalienable idea of freedom of association to the marketplace?

### Matters of Contract

Against the medieval Nader idea that the corporate features of “entity status, perpetual life and limited liability” are state-created privileges, Hessen poses his own “inherence theory.” To do this he has to break down the distinctions ordinarily made between partnerships and corporations. In Nader theory, which derives from tradition, a partnership is an aggregate, an association of individuals acting together to pursue such things as the making of a profit. Unlike a corporation, it does not have a legal being that exists independently of its owners. The proprietors of a partnership incur unlimited personal liability for business debts. They can be sued for all they own. But if a corporation cannot meet its obligations, shareholders can’t be assessed to cover deficits.

This is the theory of the matter, but Mr. Hessen finds it deficient. Looking at actual business practice, Mr. Hessen says that “entity status, perpetual duration and limited liability” are all contractual matters. Partnerships can avail themselves of them, too. Entity status happens to be an optional feature available to unincorporated businesses includ-

ing partnerships (owners can designate trustees to represent them in lawsuits, for example). Partners can make their enterprise perpetual by adopting a continuity agreement specifying that the firm will not be liquidated if one of the partners dies or withdraws.

As for limited liability, how is it to be explained by contractual theory in contrast to state-created privilege? Mr. Hessen says limited liability is actually the result of an implied contract between corporate owners and their creditors. It is a freely accepted and negotiated market transaction. You do business with a corporation on the understanding that your "right of recovery" (the phrase is Adolph Berle's) is limited to what is in the corporation's common fund. As for partners in a partnership, they may safeguard themselves by purchasing liability insurance. This amounts in practice to a limitation on their liability. Corporations use liability insurance, too.

So, if Hessen's line of reasoning is to be followed, there is no real difference between partnerships and corporations when it comes to the rights of individuals making use of them to do business. Mr. Hessen speaks of the rights of individuals to pursue goals. No matter what form of voluntary venture they choose, they neither gain nor lose any of these rights. Regardless of the type

of organization a person selects, it can only acquire those rights which its members possess as individuals.

### **No Special Privilege**

The English legal historian, Frederick Maitland, noted in 1900 that the description of a business association as a corporation was "a mere labour-saving device, like stenography or the mathematician's symbols." The use of the symbol should not be to obscure the individual rights of its members, whether they are shareholders, directors or officers. At every stage of growth, a corporation is still a voluntary association based on contract. At no stage is it dependent on state-created privileges.

In history many corporations have evolved out of partnerships. They do this when the proprietors, finding it inconvenient to operate as so many individuals possessing agency powers, decide to choose one or a few of them as managing partners and remove agency powers from all the others. From here on the way to reorganization as a corporation, with the partners becoming the original shareholders, is an easy one. Mr. Hessen asks a single question: at what point in the continuum from partnerships to corporations do individuals lose their rights? At what point does an enterprise become a "creature of the state"?

Galbraith, before Nader, is re-

sponsible for the theory that corporations are actually huge "private governments." But this, says Hesen, obliterates the distinction between politics and economics. Governments can compel obedience to their laws and forcibly collect taxes. Businesses, on the other hand, can only succeed by offering something of value in an uncoerced exchange. To force a merger of state and corporation, which Nader wants to bring about, would scramble everything. It is what Fascism tried to do, and it did not work. (E)

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### THE NEW PROTECTIONISM: THE WELFARE STATE AND INTERNATIONAL TRADE

by Melvyn B. Krauss

An International Center for  
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*Reviewed by Amy Mann*

SUPERSTITION dies hard. Over two hundred years ago, Adam Smith exposed the fallacies inherent in the protectionist practices of England (and other nations) at that time. Trade between nations was scarcely free. Today we can pick up any newspaper and read the latest de-

mands of a myriad of industries and special interest groups—e.g., the steel producers, shoe manufacturers, sugar growers, labor unions—all seeking protection from "unfair" foreign competition.

Protectionism has been with us for a long time. How, then, does the "new" protectionism of the title differ from the "old" protectionism? Economist Melvyn Krauss, of New York University, answers this question admirably. There is, he says, not only an increase in the amount of protection, but, more important, a difference in its form. He considers a number of factors responsible for this situation, and traces most of them to the growth of the welfare state.

Welfare state policies have definite effects on international trade. The growth of the new protectionism in the Western nations parallels the growth of welfare or interventionist economies at the expense of market economies. The author's "new protectionism" takes into account all forms of government intervention into the private economy.

The system of world commerce set up by GATT (the General Agreement on Tariffs and Trade) after World War II envisioned international trade as free from domestic intervention and protection as possible. The rationale for the GATT agreements was that free trade increases consumption alternatives

for everyone, and the economy as a whole benefits. Free traders fear that protection of special interests can increase the role of government in society, which can in turn lead to more centralization and thus jeopardize the autonomy and freedom of markets. Protectionists, however, argue that economic benefits for special interest groups (usually their own) are more important than the general benefits to the whole of society.

If there must be some form of protection, free traders would choose tariffs over quotas or other non-tariff barriers to trade. Tariffs distort prices, consumption levels, and resource allocation, but they are still more compatible with the free market system than non-tariff interventions, which do not work through the price mechanism and cannot always be recognized for the harm that they do.

Professor Krauss discusses at some length the effects of the numerous non-tariff restrictions on free trade. A partial list of these would include domestic subsidies, export subsidies, cartels, environmental measures, government procurement policies, and adjustment assistance payments to workers and managers. He also analyzes the effects of massive income redistribution on "capital flight," "guest workers" (migrant labor), and the volume and terms of trade between nations.

One form of protection which is relatively new is protection of the environment. The rallying cry of environmentalists is that we all have the "right" to a clean and safe environment. Further, it is the duty of government to bring this about. What is often accomplished instead, however, is protection of domestic industry. Take automobile safety standards, ostensibly designed to clean up the air, or to prevent accidents. In effect, these regulations keep out of the United States certain very popular and reasonably priced foreign cars such as the Fiat 500 and 600 models. The intent of the regulations may or may not be to keep out the imports, but that is the result. Motive here is unimportant.

In explaining the mentality which leads to welfare and protectionist measures, Krauss quotes Daniel Bell, who has spoken of "the revolution of rising entitlements." Welfare statisticians insist that every person has a *right* to economic security, a right to the job of his choice in the place of his choice, and almost at the salary of his choice. Again, citizens have the right to be shielded from changes which may bring them economic adversity, or force them to find other employment. Whole industries also—as well as private citizens—claim the right to be protected from economic dislocations.

But at what price to the individual consumer? Industries receiving

protection are the weak, inefficient ones. Wages rise too high relative to productivity. Consumers are forced to pay higher prices, often for inferior goods, and consumption opportunities are reduced. Disincentives to produce run rampant. Why work hard? A government committed to "cradle to grave" security will presumably bail out any firm or industry, regardless of economic performance. Over-regulation and high taxation stifle investment and production.

While taxes rise to pay for new programs, people do everything possible to avoid paying them. Workers and professionals take a higher proportion of their income in the form of leisure time. Barter, a growing form of tax avoidance, reduces the efficiency of the economy. Finally, a hidden purpose of so many of the protectionist programs comes clear: to redistribute income from savers and producers to nonproductive individuals. Egalitarianism is touted, while the competitive spirit and work ethic are undermined.

An economy can be likened to a living organism which, if it is to

grow and thrive, must be able to adapt to the demands of a changing environment and must receive adequate sustenance (capital). High rates of social welfare expenditure keep the economy from adjusting to change and impede capital formation. Stagnation inevitably results. Or, as Professor Krauss concludes: ". . . the welfare state is self-destructive. It both depends upon economic growth and destroys it. In the long run, the demand for a secure economic income at a given level or rate of increase, regardless of the changes that are being wrought elsewhere, proves illusory because the attempt to attain secure income reduces the ability of the economy to produce it."

*The New Protectionism* is highly recommended. Economists and laymen alike can learn much about the consequences of interventionist policies on international trade and investment. Considering the recent experience of England, American legislators who vote for such measures would be well advised to read this book. ☸

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